European
Investment
Bank
The EU bank

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

Phase 2 Report

September 2018

Disclaimer

This report has been prepared by the European Investment Bank (EIB) and PwC EU Services, for the exclusive use of the city of The Hague as Lead Partner of the MRA project, and should not be relied upon by any third party for any purpose. The report constitutes an integral part of the project Revolving Investment in Cities Europe. The project is funded through a grant from the European Commission under the Multi-Region Assistance Call for Proposals 2015CE16BGT001.

The authors do not assume and hereby disclaim any liability to any party for any loss or damage howsoever arising from the use of this report or of the information contained herein by any person.

Any views expressed herein reflect the current views of the author(s), and may not in any circumstance be regarded as stating an official position of EIB. Opinions expressed herein may differ from views set out in other documents, including other research published by EIB.

The content of the report is based on market conditions prevailing, and on data and information obtained by the author(s) from various external sources and assumed accurate, correct, and reliable at the date they were published or obtained. No representation or warranty express or implied will be made and no liability or responsibility is or will be accepted by the authors in relation to the accuracy or completeness of such data and information and any such liability is expressly disclaimed.

Nothing in this report constitutes investment, legal, or tax advice, nor shall be relied upon as such advice. Specific professional advice should always be sought separately before taking any action based on this report.

Report v.1		
Study designed by	EIB	
Drafted by	PwC EU Services	May 2018
Reviewed by	EIB	June 2018
Submission of the draft report to MRA RICE Partners	EIB	August 2018
Submission revised version	EIB / PWC EU Services	September 2018

The Hague European Investment Bank The EU bank MANCHESTER CITY COUNCIL MAYOR OF LONDON Milano Comune di Milano European Union European Structural and Investment Funds

Table of Contents

Table of Figures

Table of Tables

List of Acronyms

CPR	Common Provision Regulation
DE	Decentralised Energy
DEEP	Decentralised Energy Enabling Projects
ED	Energiefonds Den Haag
EFSI	European Fund for Strategic Investments
EIAH	European Investment Advisory Hub
EIB	European Investment Bank
ELENA	European Local Energy Assistance
EPC	Engineering, Procurement, and Construction
ERDF	European Regional Development Fund
ESIF	European Structural Investment Fund
FI	Financial Instrument
FRED	Fonds Ruimte en Economie Den Haag
GBER	General Block Exemption Regulation
GLA	Greater London Authority
HEID	Holdingfonds Economische Investeringen Den Haag
IFM	Independent Fund Manager
IMC	Internal Monitoring Committee
JASPERS	Joint Assistance to Support Projects in European Regions
LEEF	London Energy Efficiency Fund
MEEF	Mayor of London Energy Efficiency Fund
NPBIs	National Promotional Banks and Institutions
NWEF	North West Evergreen Fund
PPP	Public Private Partnership
SPV	Special Purpose Vehicle
URBIS	Urban Investment Support
VVE	Homeowner associations (*"Vereiniging van Eigenaren"*)

Glossary of terms

Beneficiary	A public or private body and, for the purposes of the EAFRD Regulation and of the EMFF Regulation only, a natural person, responsible for initiating or both initiating and implementing operations; and in the context of State aid schemes, the body, which receives the aid; and in the context of financial instruments under Title IV of Part Two CPR, it means the body that implements the financial instrument or the fund of funds as appropriate.	Article 2(10) Regulation (EU) N 1303/2013 Common Provision Regulation
Blue-Green Infrastructure	Blue and Green Infrastructure provided as part of the sustainable development of a city. Examples include measures for storm water management, climate adaptation, better air quality and sustainable energy production. Can also include measures to improve quality of life through recreation facilities and providing shade and shelter in and around towns and cities	MRA-RICE Project definition
Blue Infrastructure	Urban infrastructure relating to water including waterways, ponds, lakes, coastal features, harbours, quays and piers.	MRA-RICE Project definition
Economic Development sector	Encompasses investments supporting the launch and the development of businesses, including SMEs and start-ups. Includes investments in the development of new commercial/ RDI facilities.	MRA-RICE Project definition
Blue Infrastructure	Urban infrastructure relating to water including waterways, ponds, lakes, coastal features, harbours, quays and piers.	MRA-RICE Project definition
Equity investment	Provision of capital to a firm, invested directly or indirectly in return for total or partial ownership of that firm and where the equity investor may assume some management control of the firm and may share the firm's profits.	Article 2(m) Reg. (EU, EURATOM) N 966/2012 Financial Regulation
Ex-ante assessment	An assessment which precedes the European Structural and Investment Funds (ESIF) programme contribution to a financial instrument and which establishes evidence of market failures or sub-optimal investment situations and the estimated level of and the scope of public investment needs, including types of financial instruments.	Article 37(2)(3) Regulation (EU) N 1303/2013 Common Provision Regulation

Final recipient	A legal or natural person receiving financial support from a financial instrument	Article 2(12) CPR
Financial instrument	Union measures of financial support provided on complementary basis from the budget to address one or more specific policy objectives of the Union. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees, or other risk-sharing instruments, and may, where appropriate, be combined with grants.	Article 2(p) Reg. (EU, EURATOM) N 966/2012 Financial Regulation Article 37(7)(8)(9) Reg. (EU) N 1303/2013 Common Provision Regulation
Fund of funds	A fund set up with the objective of contributing support from a programme or programmes to several financial instruments. Where financial instruments are implemented through a fund of funds, the body implementing the fund of funds shall be considered to be the only beneficiary.	Article 2(27) Reg. (EU) N 1303/2013 Common Provision Regulation
Green Infrastructure	Nature based solutions incorporated into urban design to address urban and climatic challenges	MRA-RICE Project definition
Guarantee	A written commitment to assume responsibility for all or part of a third party's debt or obligation or successful performance by that third party of its obligations if an event occurs which triggers such guarantee, such as a loan default.	Article 2(1) Reg. (EU, EURATOM) N 966/2012 Financial Regulation
Housing and Commercial Buildings sector	Covers investments linked to the development of additional housing and commercial units.	MRA-RICE Project definition
Leverage effect	The Union contribution to a financial instrument shall aim at mobilising a global investment exceeding the size of the Union contribution according to the indicators defined in advance	Article 140 Reg. (EU, EURATOM) N 966/2012

	Article 223 – The leverage effect of Union funds shall be equal to the amount of finance amount of the Union contribution. In the ESIF context, the leverage is the sum of the amount of ESIF funding and of the additional public and private resources raised divided by the nominal amount of the ESIF contribution.	Financial Regulation Article 223 Delegated Regulation (EU) N 1268/2012 Rules of Application
Limited partnership agreement	A form of partnership in which some of the partners limit their liability for the partnership's debts and do not participate in the management of the partnership. A limited partnership must have at least one "general partner" that has management authority and liability for the debts of the partnership.	MRA-RICE Project definition
Loan	An agreement which obliges the lender to make available to the borrower an agreed sum of money for an agreed period of time and under which the borrower is obliged to repay that amount within the agreed time.	Article 2(k) Reg. (EU, EURATOM) N 966/2012 Financial Regulation
Management costs and fees	Management costs refer to direct or indirect cost items reimbursed against evidence of expenditure. Management fees refer to an agreed price for services rendered established via a competitive market process, where applicable. Management costs and fees are based on a performance based calculation methodology.	Article 42 Reg. (EU) N 1303/2013 Common Provision Regulation
Multi-sector fund	Structure of the city fund that covers more than one thematic investment areas.	MRA-RICE Project definition
Patient capital	Referred to as long-term capital with a grace period; investment where the capital is invested for long-term and no immediate capital reimbursement to be expected	MRA-RICE Project definition
Portfolio approach	Decision making support about investment matching, asset allocation and managing the portfolio risk against its performance.	MRA-RICE Project definition
Quasi-equity	A type of financing that ranks between equity and debt, having a higher risk than senior debt and a lower risk than common equity. Quasi-equity investments can be structured as debt, typically unsecured and	Article 2(n) Reg. (EU, EURATOM) N

	subordinated and in some cases convertible into equity, or as preferred equity.	966/2012 Financial Regulation
Single fund	Structure of the city fund that covers a single thematic investment area.	MRA-RICE Project definition
Subordinated debt	Junior debt ranked below senior loans or security.	MRA-RICE Project definition
Urban Transport Infrastructure	Includes investments in transport infrastructure (e.g. rail, bus networks, as well as cycling networks) aiming at improving the connectivity at city level.	MRA-RICE Project definition
Risk-sharing instrument	A financial instrument, which allows for the sharing of a defined risk between two or more entities, where appropriate in exchange for an agreed remuneration.	Article2(o) Reg. (EU, EURATOM) N 966/2012 Financial Regulation
Support from the ESI Funds	Support from the ESI Funds means support from one or more of the following funds: European Regional Development Fund, European Social Fund, Cohesion Fund, European Agriculture Fund for Rural Development, European Maritime and Fisheries Fund. Support from ESIF does not include national co-financing.	Articles 43, 44, 45 Reg. (EU) N 1303/2013 Common Provision Regulation

Progress achieved to date

Date	Key Activities	Comments
29 June 2017	Kick-off Meeting	Meeting held
21 September 2017 3-4 October 2017	Interviews in London	Completed
19-20 September 2017 20 November 2017	Interviews in Manchester	Completed
27 September 2017	Workshops in Milan	Completed
29-30 June 2017 12-13 October 2017	Interviews in The Hague	Completed
8 November 2017	Working workshop PwC - EIB	Delivered
4-5 December 2017	MRA-RICE Workshop in London	Completed
31 January – 2 February 2018	Interviews in Milan	Completed
23 March 2018	Draft Final Phase 1 Report	Delivered
26-27 March 2018	MRA-RICE Workshop in Milan	Completed
31 May – 1 June 2018	MRA-RICE Workshop in Luxembourg	Completed
29 June 2018	1st Draft Final Phase 2 Report	Delivered
4 July 2018	MRA-RICE Workshop in The Hague	Completed
14 August 2018	2nd Draft Final Phase 2 Report	Delivered
19 September 2018	Final Phase 2 Report	Delivered

Executive summary

As part of the project known as “Multi-Region Assistance Project – Revolving Investment for Cities in Europe”, (MRA-RICE), EIB with the support of PWC is providing advisory services to the cities of London, Manchester, Milan and The Hague. This chapter provides an outline of the objectives and the scope of the study, as well as the scope covered by this second deliverable of the study.

The main objective of the study is **to identify common technical and financing needs across cities,** and the extent to which a **multi-region financial instrument** that provides **standardised solutions and delivery models** could be a viable solution to provide financing and technical support to cities **urban development projects**. To achieve this, the project aims to explore the common themes of urban financial instruments across London, Manchester, Milan and The Hague. The study will seek to describe the potential demand for a multi-region financial instrument supporting a range of financial products, to identify the barriers to its implementation and establish whether such an instrument could provide a viable solution to meet the financing needs for urban development in the future.

Phase one of this study identified **common investment priorities** and financing needs in urban development among partner European cities and investigated how these needs could be addressed by financial instruments. This phase encompassed the delivery of Report 1 and one Case Study per city.

Phase two discusses the design and the governance of a city fund, as well as the potential creation of a new multi-region financial instrument for urban development. Firstly, this report assesses the **blueprint of the city fund** including financial products, thematic focus areas and profiles of final recipients. Secondly, the creation of a new **EU wide financial instrument** is analysed describing the potential benefits of such an approach, the governance considerations for compliance with the regulatory framework, as well as the proposal for a new EU level fund for cities.

The report also assesses the **cities’ needs for technical assistance** and develops a set of options for the delivery of technical assistance to the cities (such as support for assessment of needs as well as development of new financial instruments). Finally, Phase three will focus on the dissemination of the results of the study.

Analysis conducted in the Phase 1 report highlighted the importance of the development of a **strategic development strategy** by the city in parallel with supporting the development of a pipeline of promising projects.

Common financing needs have been identified across sectoral priorities. The Phase 1 report highlights how in the partner cities **funding gaps have been identified for** integrated projects in **transport, energy efficiency, housing and commercial buildings**. The assessment conducted also shows that partner cities might need further financial instruments to unlock funding for **infrastructure development**, providing long-term capital, possibly associated to a grant component and **equity/quasi-equity for blue and green infrastructure.**

Moreover, the analysis conducted in Phase 1 of this study indicated a number of **technical assistance needs** faced, to a different extent, by each of the partner cities. The identification of the common technical assistance needs provides a basis for the mapping of corresponding technical assistance services.

To reflect the process of transforming the city strategies into the implementation of urban projects, technical assistance services should follow corresponding stages of urban development strategy implementation process. This approach facilitates understanding of the technical assistance services needed by city and its partners at each stage of taking urban development plans from strategy to tangible outputs.

The report focuses on the objectives described in the subsection above and is organised in six following Chapters:

- Chapter 1 gives an introduction to the objectives and scope of the assignment;
- Chapter 2 focuses on the blueprint of the city fund;
- Chapter 3 provides an assessment of technical assistance needs and defines the areas, which need further support, including the outline of existing programmes;
- Chapter 4 outlines the Regulatory Framework for the new EU wide financial instrument;
- Chapter 5 focuses on the EU-level Multi Region Urban Development Fund;
- Chapter 6 presents the conclusions.

1 Introduction

1.1 The Phase 1 report

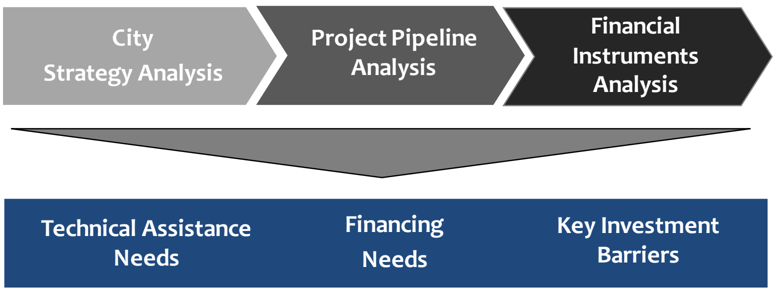
1.1.1 Approach and methodology

Phase 1 of this study focused on the identification of common investment priorities, financing and non-financing needs (including technical assistance) among the partner cities' urban development projects. The methodological approach undertaken was based on the analysis of:

- **Cities' investment strategies:** the cities' policy documents describing urban development strategies provided a high-level view on the cities' mid- and long- term goals, the sectors targeted for investment, the project plans developed and the approach taken to achieve these goals. The information collected in this stage served as the basis for input for the following stage of analysis.
- **Project pipelines:** the list of urban development projects for each city provided an insight on the key sectors targeted for investments, the investment amount needed in these sectors, the potential funding supply and key project partners.
- **Existing financial instruments**: an analysis of the existing financial instruments gathering information on the former and ongoing practices in the use of the city funds. The review identified the demand for scaling up or setting up the financial instruments required to face the current project pipeline needs. This assessment provided an overview of the lessons learnt, best practice and potential financing needs.

For these three areas, the similarities and differences across the cities were analysed and as outlined in Figure below, the main findings feed into the identification of needs (financing and non-financing) and the key investment barriers.

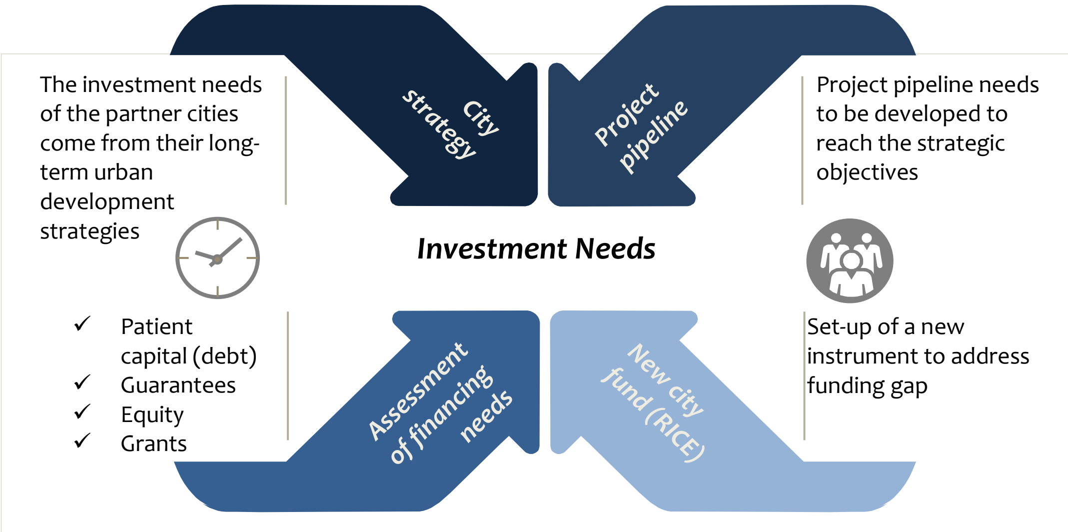
Figure 1: Assessment of city analysis approach



1.1.2 Findings

Analysis conducted in the Phase 1 report highlighted the importance to cities of the **development of integrated development strategies in parallel with supporting a pipeline of projects that are aligned to the strategy**. Both financial and non-financial needs should be addressed to smooth the realisation of the ambitious plans of cities across the EU.

Figure 2: Investment needs - recap



Source: PwC analysis

Access to financing, as well as to the Technical assistance services, are critical factors, which transform a city's vision into reality.

1.1.3 Financial barriers and needs

The conducted analysis underlined that financing needs among partner cities are mainly sectoral oriented and are split among following sectors: Transport, Energy, Economic Development (supporting growth and innovation through support for SMEs, start-ups and new commercial/RDI facilities), Housing and Commercial Buildings, as well as Blue and Green Infrastructure.

Table below outlines the nature of financing needs among identified investment areas.

Table 1: Common financing needs across sectoral priorities

Sectoral characteristics of cities' projects	Assessment of financing needs
Transport projects • Capital intensive • Generate limited direct revenues • Require long-term capital with a grant component	• **Additional financing instrument** to unlock access to long-term capital, possibly blended with grants
Energy projects • Varying investment sizes • Possibility of generating income streams or financial savings	• Scale-up the existing funds (ED, MEEF) • Develop models to support PPP projects and EPC projects • Create financial instruments to provide debt and guarantee products
Economic development projects • Business oriented • Revenue generating	• Deploy the existing funds (FRED, NWEF)
Housing and commercial buildings • Long-term capital • Often complex and cross-sector	• **Additional financing instruments** to unlock access to long-term capital for integrated projects

Green and blue infrastructure projects

- Low (or non) revenue generating
- Strong positive externalities (e.g. increased land/house value, increased attractiveness of the city, lower flood risks)

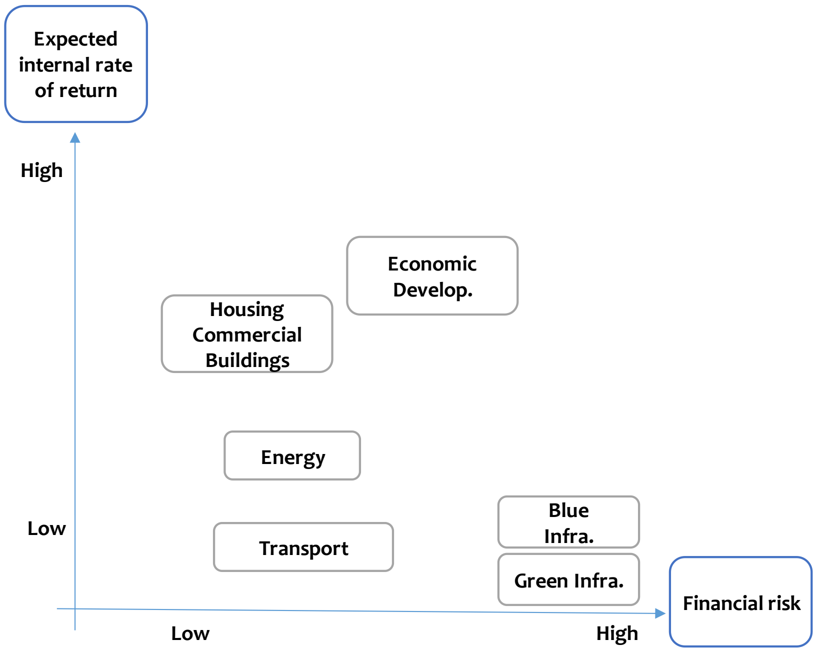
- **Additional financing instruments** to unlock access to equity capital for environmental projects
- Potential in blending such projects with revenue-generating investments

Source: PwC analysis

The existing financial instruments operating in the cities of London, Manchester and The Hague are active in energy projects, economic development and housing and commercial buildings. These cities have well established products that successfully support projects in these sectors.

Following the sectoral allocation of needs, as well as their expected revenues and risk profiles, the Figure below plots the priority investment areas.

Figure 3: Assessment of expected revenues and risks among investments' areas



Source: PwC analysis

At present there are no active financial instruments in the partner cities to fund blue infrastructure investments. These projects have a rather high-risk profile and they do not generate direct streams of revenues. However, considering the cost saving nature of this kind of investment (i.e. the prevented event cost) a model could potentially be developed in the future where the **savings made by a public authority or utility could be used to reimburse** the debt product, with a low interest rate and a long tenor.

On the other hand, the cost of the green infrastructure investments, which neither generate revenues nor savings, could only be funded by **bundling them with more commercial and profitable investments** in economic development and Housing and Commercial Buildings. To date there is no evidence in the partner cities of this being successfully done through a financial instrument although it remains a possibility.

1.1.4 Access to ESIF Resources

Access to ESIF resources can be a key financial barrier for cities seeking to develop a financial instrument, often despite the presence of the funding at the national level. Of the partner cities, London is a formal Intermediate Body and the City of The Hague and Manchester both have close working relationships with the Managing Authority. These arrangements have allowed the cities to direct how the ERDF resources are used locally and has been an important factor in the successful development of financial instruments in the city.

This is not, however, a feature of the shared management arrangements for ERDF in many Member States which can result in the fragmentation of support for urban development in cities. This, in turn, risks sub-optimal impacts being achieved for ESIF resources and where cities do not participate in the governance of financial instruments, a lack of alignment between the investment strategy of an urban fund and the city's urban development plan.

For example, it is often the case that ESIF resources are managed on a regional basis by an authority that is not connected with the municipality and with a geographical area that covers a range of different types of settlements ranging from urban to rural environments. As a result the development strategy of the regional authority will, by necessity, seek to address the full range of the region's needs and will, therefore often not have the same focus on the needs of the city. On the other hand, a city authority is able to have a more single-minded focus on the needs of the city, which functions as a single economic area, enabling it to develop an integrated development plan tailored to meet the specific needs of the place.

European Commission
WORKING TOGETHER FOR BETTER CITIES
URBAN AGENDA FOR THE EU

The partner cities recognise the important role of regional authorities in ensuring 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 its 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 could be more directly accessible for cities' to use in operations such as an MRA-RICE City Fund.

In 2016 the Pact of Amsterdam[1] identified the need for the Urban Agenda for the EU[2] 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".

[1] https://ec.europa.eu/futurium/en/system/files/ged/pact-of-amsterdam_en.pdf

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

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."

The evidence gathered in this study suggests that for larger cities with strong local capacity, access to ESIF resources enables them to set up financial instruments that mobilise additional resources to support urban development in the area. The MRA RICE partner cities have worked together to develop the MRA RICE blueprint fund that provides cities with a flexible model for a financial instrument to support its integrated urban development strategy. This could, in turn provide the basis for a new EU level fund that allowed existing ESIF resources to be more accessible to cities to allow them to be used in the implementation of the intervention.

1.1.5 Non-financial barriers and needs

Organisational barriers (1), knowledge gap (2) and regulatory complexity (3) are the key non-financial barriers hindering the establishment of a city fund. The report's conclusions included that:

1) The lack of an integrated operational approach in the public administrations can become a limiting factor in terms of coordination of different projects and priorities across the city council. This **organisational barrier** ultimately leads to difficulties in the development of a pipeline of projects that could form a portfolio, which would be attractive for investors. The London case study shows how a city can use its growing expertise with financial instruments to develop models capable of attracting significant additional co-investment.

2) The **knowledge gap** is likely to be present at both the level of project promoters and public authorities. Greater exchange of information, expertise and awareness of good practice across the city departments can address this barrier. Technical assistance programmes focused on capability building and tailored to the needs of urban administrations are also a potential solution. Both Manchester and London have used ELENA technical assistance to help develop low carbon/energy projects for investment.

3) At the moment of establishing a new financial instrument, difficulties emerge in ensuring that the fund complies with relevant **regulation** (e.g. national legislation, sector specific, State aid). The experience of The Hague shows how large cities can use their existing resources to develop the capacity to address these issues, which has been crucial to the success of their ED and FRED financial instruments.

Finally, a last barrier can be raised if the investment needs of the city are not aligned to the Thematic Objectives and/or eligibility requirements of a given Operational Programme, making the investments not capable of attracting ESIF. The MRA RICE blueprint would have the potential to bring cities, Managing Authorities and the EU closer together in terms of strategic alignment by developing further the lines of communication in relation to investment priorities.

For example if cities had greater direct access to funding including ESIF it would encourage cities to tailor its strategies to ensure it can benefit from the funding. Similarly by including cities within the actors directly delivering ESIF outcomes, communication will be fostered between all parties involved, further enhancing the capacity to develop smart, integrated sustainable strategies that fully reflects the potential role the city can play within the regional, national and EU context

1.2 Key points from the Case studies

The MRA-RICE blueprint for a city fund is built on the experience and good practice identified by the partners and captured in the case studies developed for each city. In the case of partner cities that have established a successful city fund (i.e. London, Manchester and The Hague) the analysis was focused on the assessments of investment strategy and the replicability of the successful models. In the case of Milan, which has less direct experience with city funds, the potential set-up of a city fund was analysed, simulating how investments could be structured and matched with selected city projects.

The aim was to identify the best practice that can be replicated in other cities (with sufficient critical mass) **in Europe** to develop new or upgrade existing financial instruments.

When assessing existing financial instruments, the analysis focused on the investment strategy to find out how the fund is structured, which products are offered, and how the fund is organised, including its governance. Further, the project pipeline was analysed to point out deals' terms and conditions, its size and sector orientations.

The assessment of the potential future development of the existing financial instrument will close each case study to show whether there is a scope for standardisation and replicability, as well as to analyse how the additional funds can be mobilised under the existing structure to scale-up the investments.

1.2.1 London: The Mayor of London's Energy Efficiency Fund

London, thanks to the experience gained during the JESSICA initiative, is today one of the most experienced cities when it comes to the use of financial instruments.

The Mayor of London's Energy Efficiency Fund (MEEF) is an example of the city fund that has **successfully involved private sector** investors. The Fund is built on public participation of GBP 43 m deployed by the Greater London Authority (GLA) using the ERDF, which serves as the basis for leveraging private resources. The Fund Manager is in charge of attracting additional funding from other investors (i.e. banks and other institutions), excluding the EIB and project promoters. These funds are employed mostly at the project level and if possible at the Fund level as well.

It is expected that at least 60% of the total additional funding mobilised should come from private sector sources. The **public financing aims to attract further funding from private investors.** The public resources are used to address a market gap, enabling many projects to access funding that would be otherwise either not available or too expensive. The funding gap for the period 2014 - 2020 has been estimated in the ex-ante assessment at the level of GBP 2.7 bn to GBP 7.0 bn.

Thanks to the involvement of the private capital the fund was able to raise funding commitments of eleven times the initial amount of the ERDF funds.[3] The leverage effect of public capital achieved

[3] 10.6x leverage is already secured; Fund Manager expects this ratio to increase.

by attracting private sector investors ensures **maximisation of the impact delivered by the public financing**.

1.2.2 Manchester: the North West Evergreen Fund

The Evergreen Fund 1 is an example of the city fund that has **adjusted its offer during the lifespan of the fund** in order to reflect the needs of the projects and to address the existing market gap. This approach enabled the creation of **investment opportunities**, which support the delivery of the city's sustainable urban development strategy.

The fund has also successfully developed the **ecosystem of strategic investors**, involved in the delivery and co-financing of the projects. Following the commitment of its initial capital resources, the fund was able to maintain a high output and to maximise the impact delivered by **selling part of its loan book** and consequently **reinvesting its funds**. This approach might be replicable if the cooperation between the city and investors, with the right motivation and capacity to become involved in the Fund, is developed.

1.2.3 The Hague: Energiefonds Den Haag

The Energiefonds Den Haag (ED fund) was set-up as a **sectoral city fund,** which has become a **part of the multisector Holding Fund HEID**. The fund-of-funds structure with thematic city funds could be relevant for those cities which identified investment needs across different sectors and are planning to carry out multi-sectoral investments. This model of the city fund includes the involvement of the Fund Manager with sectoral expertise, as well as the definition of tailored investment strategies for each of sector.

The ED fund **started off the fund as a pilot**, with an initial limited fund size. Other city funds could build on this experience and start off in small scale, testing the chosen model with moderate financial commitments. The ED fund has also developed **experience with Public Private Partnership** (PPP) investments for geothermal projects, which could be potentially relevant for other city funds financing PPPs.

1.2.4 Milan: a prototype of the new fund

The case study for the city of Milan focuses on the potential set-up of a city fund, simulating how investments could be structured and matched with selected investment priorities of the city. The MRA-RICE blueprint builds on the elements collected during the development of the case studies from the cities of London, Manchester and The Hague.

Within this scope, two potential areas of intervention are considered:

- The **urban development project,** with the example of the regeneration of the municipal markets ("*Mercati Comunali*");
- **Energy efficiency,** with the example of the energy efficiency renovation of multi-apartment residential buildings.

On this basis, the analysis carried out focuses on the identification of the financial products and the requirements for the city fund in terms of operational management based on the information provided by the Municipality of Milan, including information from the project pipeline and from studies conducted in the past. [4]

[4] Feasibility study for the set-up of an urban development fund for the city of Milan (2016).

2 Blueprint of the MRA-RICE city fund

The blueprint of the MRA-RICE city fund has been developed by gathering best practice observed among partner cities, as described in Chapter 1 of this report.

It proposes a **flexible framework** that can be applied by cities aiming to **set-up a new financial instrument**. It highlights all key aspects that should be considered by the city in order to move from its vision and strategy level into the operationalisation.

The vision for the MRA-RICE blueprint 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".

When designing the blueprint of the city fund the key aspects to be considered are:

- The **financing needs** and existing **financing supply** of the geography and sector in question;
- The **products** that should be offered to address the unmet needs;
- The **investors** who should be engaged and their requirements;
- The delivery and **governance structure** that should set-up;
- The **regulatory framework** including State aid, procurement and accounting considerations that should be considered; as well as
- The **Technical Assistance** that should be offered and the level of complimentary grant funding that may be needed.

The **city can take the lead** when establishing a new financial instrument. It is in the interest of the city to **define the investment strategy** and **identify the right projects for investors,** both public and private, from an early stage**.** This must be balanced against the requirement for **an independent fund manager and commercially driven decision making** required by private investors and State aid requirements

---

2.1 Design

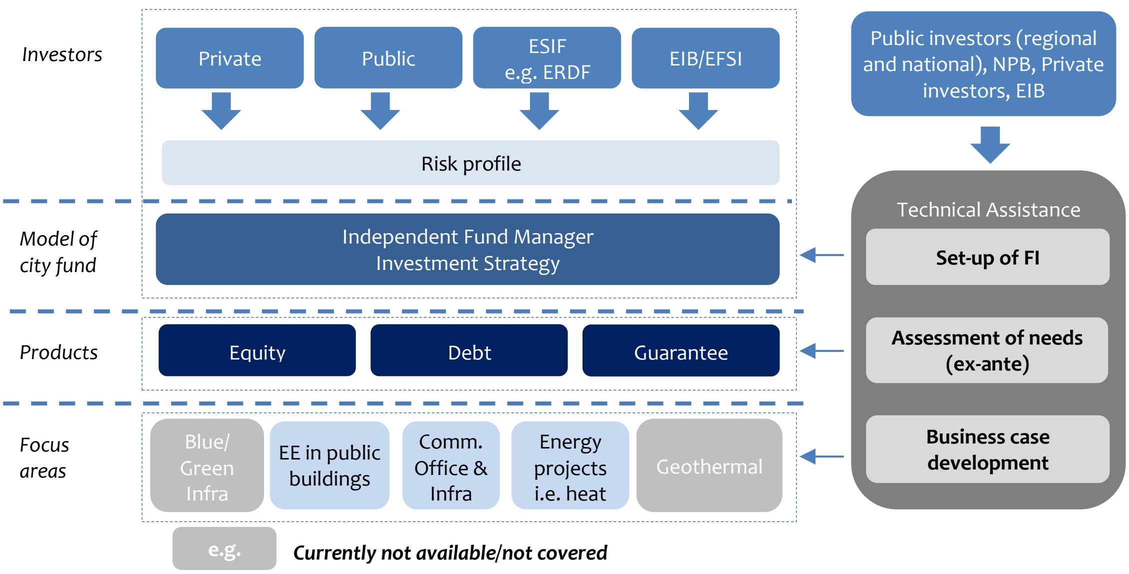
2.1.1 Overview

The new MRA-RICE blueprint city fund has to be adapted to and focus on the **main investment needs of the city** in order to **transform a city's vision and strategy into implementation**. The set-up of a new city fund is the **opportunity for the city to define the investment strategy** for the operation that will **support the implementation of the city strategy** and will address the market failure that has been observed**.**

Each of the MRA-RICE partner cities has faced this challenge and has used the experience gained to develop their expertise with financial instruments.

The Figure below illustrates a design for the MRA-RICE blueprint new city fund, which leaves a lot of flexibility to the city in terms of which resources and for which strategic purposes should be mobilised. All key elements listed above are integrated to visualise how the new financial instrument could bring together investors with different risk profiles, define the investment strategy and governance structure, and finally invest in city projects providing products, such as: equity, debt and guarantees, that will correspond best with the market failure. Focus areas that are listed in the Figure correspond with findings of the Phase 1 report and summarise the investment needs observed among partner cities.

Figure 4: Blueprint of the city fund



Source: PwC analysis

The blueprint is structured to ensure that in the appropriate circumstances, significant leverage can be achieved at both fund and project level. MRA RICE has highlighted the potential for City Funds to attract co-investment with partner banks. For example the MEEF that has been established in London is expected to secure commitment of approximately GBP450 million from private institutions and the EIB from an ERDF commitment of GBP43 million (a leverage ratio ca. 10.5x). Evergreen 1 in Manchester which had an ERDF contribution of GBP45 million mobilised approximately GBP 185 million (Leverage ratio ca.4x).

Although London is not typical of cities in Europe, it demonstrates the potential for ESIF financial instruments to attract co-investment where the market conditions, project pipeline and independent fund management are all in place. It may be more typical to assume a leverage ratio in line with the experience in Manchester of approximately four times, through a combination of public and private investment at fund and project level. Thus, for example, a proposed commitment of EUR 40 million of ESIF to a MRA-RICE blueprint city fund should have the potential to leverage approximately EUR 160 million additional funding, providing a total level of investment of EUR 200 million in the city.

2.1.2 Independent Fund Manager

The experience of the partner cities is that the **involvement of an independent Fund Manager** (IFM) is critical to the success of the financial instrument. The IFM is accountable for building the reputation of the fund and development of the project pipeline aligned to the fund's investment strategy. On a day to day basis, the IFM identifies, assesses, selects and develops project pipeline in line with the city's investment strategy.

The independent management of the fund is a **fundamental requirement of the MRA-RICE blueprint** as it is necessary to secure **co-investment from banks and other investors** both in the public and private sector (whether on set up of the fund or in the future). By selecting an IFM that is robust with a good track record of investment in the sector, cities can maximise the potential of attracting investment from public institutions such as National Promotional Banks and Institutions (NPBIs) and EU level bodies such as the European Investment Bank including EFSI and (potentially in the future) InvestEU.

In the experience of the MRA-RICE partner cities, the IFM is a key partner who brings their skills, track record and experience to the financial instrument, providing credibility and know-how to ensure the fund is a success. This, in turn, meets the needs of public and private co-investors who require that the financial instrument is managed, and investment decisions are taken, by professional experts, to ensure the fund is operated with objectivity and project appraisal is free of political influence.

Other benefits an IFM can bring to a financial instrument operation include:

- the potential to attract private investors thanks to the extensive investor networks developed by the IFM, which brings a catalyst effect to the investment model.
- wide network of clients, from which they can source new projects and further develop the project pipeline. The selected IFM should be specialised in the financing of sectors which are relevant to the city fund.

The mandate given by the MRA-RICE partner cities to the Independent Fund Manager means a mandate to the organisation (not the person) that is appointed to act as the IFM. The cities contract with the IFM based on procurement and then legally mandate full responsibility to the IFM. This means that IFM needs to be able to have full control and decisive power over the investments in projects. The cities will evaluate and conclude whether the IFM operates in line with the strategy, but will not veto or influence project investment decisions. The section on governance at paragraph 2.4 explains how in practice this is achieved.

2.1.3 The flow of funds

The first step in establishing a financial instrument under the MRA-RICE blueprint is to secure the necessary ESIF resources or other public resources. In the partner cities, where a financial instrument has been set up, ERDF, including national co-financing has been used as the initial investment. In practice this is done by **the Managing Authority/Implementing Body giving a grant of the resources to the city**. This has allowed the city to subsequently set up the financial instrument in accordance with the requirements of the CPR and delegated legislation (see paragraph 2.1.4). As access to ESIF can be a challenge for some cities, national or locally raised resources could be used as an alternative. The potential to use local funds in a revolving instrument was considered as part of the Milan case study.

Following the selection of the IFM, a new special purpose vehicle (SPV) is often formed to be the legal entity that is the financial instrument. The governance arrangements for the SPV are discussed in the case study for The Hague as well as in the section below. The city will invest the ERDF resources into the fund by way either of a contingent loan (Manchester) or grant (The Hague).

A contingent loan is a loan facility that advances the resources to a financial instrument for on-lending to final recipients. The loan is repayable after the end of the term but only to the extent that the on-lending is repaid by the final recipients to the financial instrument. A grant, on the other hand is not repayable, although the terms of the grant agreement may have requirements for use of any remaining resources in the event the financial instrument is wound up in the future. It would be a matter for the city to decide which option it preferred. The benefit of a contingent loan is that at the end of the operation any ERDF resources received by the financial instrument is returned to the city for further reinvestment in the future. Where funds are initially contributed by way of grant the SPV will retain ownership of the funds for as long as they continue to be returned by investments.

Typically, in line with the CPR, ESIF resources will be contributed to the SPV in tranches linked to the investment of funds into projects by the financial instrument. The SPV may also receive on similar terms further national and/or local co-investment. Although in principle, the MRA-RICE blueprint has been developed to increase the potential for other investors to invest directly into the SPV, the experience shows that co-investment is more usually achieved at project level (Manchester/The Hague) and/or through parallel arrangements under the management of the IFM. The MEEF in London, for example, allows private investors to commit funds on a project by project basis through a single governance arrangement under which the investment is managed by the IFM.

In the longer term there may be more scope to build on the London model to secure private investment at fund level as the size and track record of the financial instruments develop. The MRA RICE blueprint with its emphasis on independent fund management and robust governance structures should be increasingly “investor friendly”, particularly if the model becomes replicated and well understood (by public and private investors alike) across cities in the EU

As soon as the investment decision is taken, the IFM needs to work on channelling funds to the final recipient. The IFM will be responsible for the due diligence, negotiation and legal documentation of the terms of the investment, security package and inter-creditor arrangements (if required) and will typically engage technical and legal advisers to assist in this process.

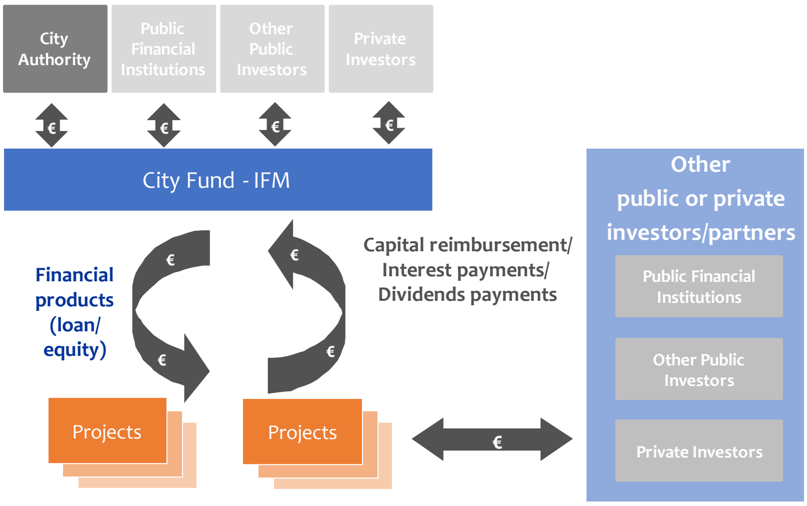
The Figure below illustrates how **each inflow of money is invested**, and **then reimbursed**. All of public and private **financial participations are distributed** to the projects, including SPVs, in the form of financial products, e.g. loans or equity. Afterwards, the **offered products are repaid** generating streams of money to the fund and finally, this money is transferred to investors involved in the funding scheme, including streams of:

- **Capital** that is reimbursed and **interest rates** that are paid, in the case of loan products,
- **Dividends** that are paid, in the case of equity products, as well as

- **Management fees** that are paid from the committed resources or returns.

The revolving nature of financial products offered by the city fund enables reinvestment of accumulated capital as soon as it is repaid, and to leverage the amount of capital invested by the public sector involving private sector investors.

Figure 5: Funds cash flows at city fund



Source: PwC analysis

2.1.4 Fund structuring

Following the partner cities' experience with urban development funds, two options of the potential structure of the new city fund are discussed below.

On the one hand, if the **city has developed financial instruments** in place and just needs to unlock access to finance for a **single sector** then a **Single Fund** structure might be appropriate. On the other hand, if the city's financing **needs are spread across multiple sectors** than a multi-sector **Fund** should be further considered.

Option 1:
Single Fund

- Covers a **single** thematic area
- **Simple** model to address sector specific financing needs
- Public funds are leveraged at the fund level, as well as at the project level

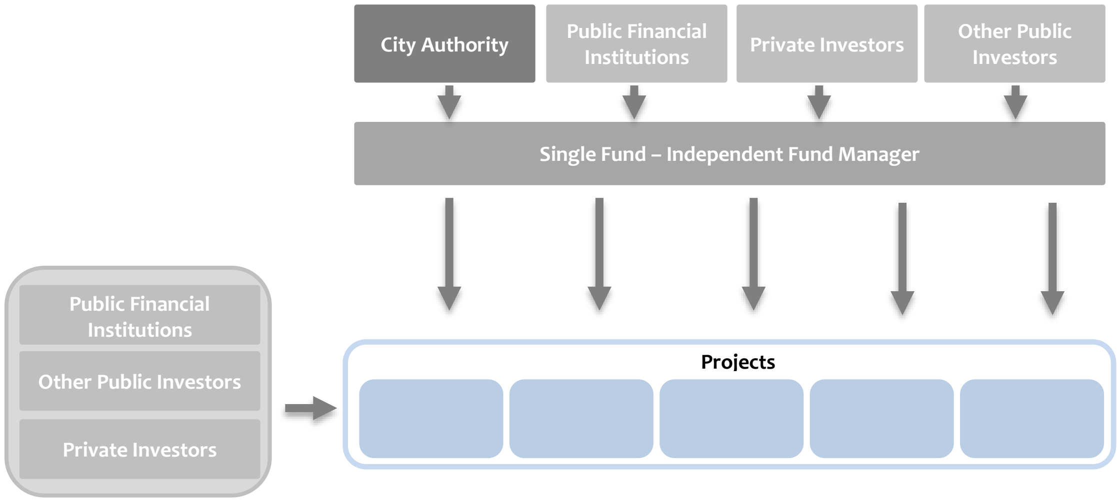
Option 2:
Multi-sector Fund

- Covers **multi thematic** areas
- **Complex** model to address diversified financing needs
- Funds are channelled through **investment compartments** (sector specific)
- Each fund's investor invests directly in the compartment of individual choice
- Public funds are leveraged at the fund/compartment/project levels

2.1.4.1 Single Fund

A Single Fund structure covers a single thematic area under which the city fund can invest in various risk classes, including low- and high-risk investments. It would be managed by an IFM appointed to manage the fund.

Figure 6: Single Fund set-up



The experience of the MRA-RICE partner cities to date is that such funds can be managed by the IFM and invest in projects directly. The selection of an IFM with knowledge and experience of the sector is an important factor in establishing a successful fund. The IFM can act as a "market maker" stimulating activity in the market to help develop a project pipeline. In this respect the relationship between the City and its IFM becomes key to the implementation. Building and maintaining an open and transparent relationship between City and IFM will ensure the parties' respective roles and interests are recognised whilst ensuring a continued alignment of priorities for investment.

However, in some cases, the Fund could invest through a number of financial intermediaries, for example if a "retail banking" channel was required as is the case for energy efficiency for domestic premises.

For instance, the use of several financial intermediaries would be important in the delivery of a **financial instrument for individual consumers**. A retail bank with branch offices open to the public would be effective as a channel to reach potential financial recipients and to provide **technical assistance** to help develop a project.

2.1.4.2 Multi-sector fund

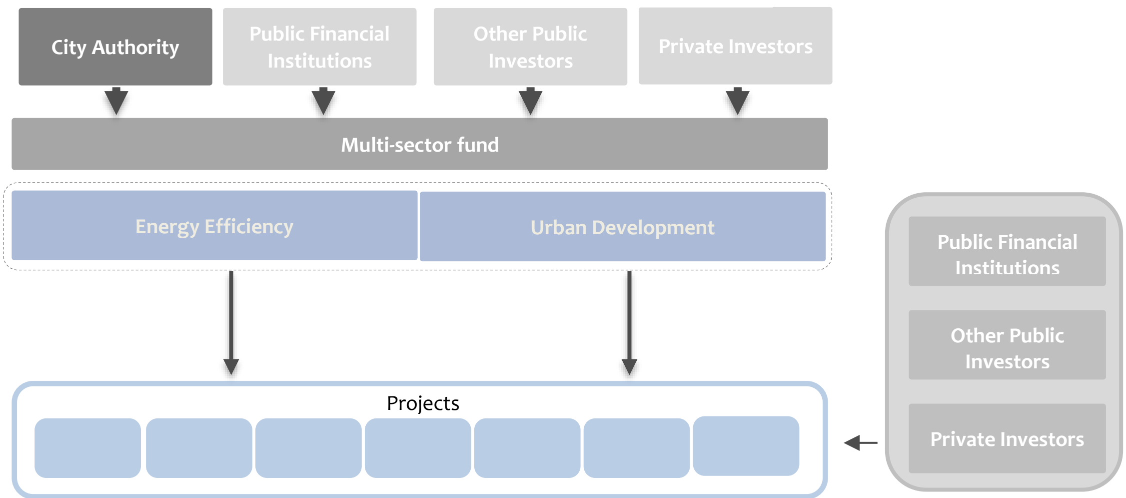
The multi-sector fund structure covers two or more **multi-thematic areas under a single legal entity**. This structure could be an option for those cities which have extended sectoral needs, such as Milan among partner cities. Its central feature is the use of a single IFM to invest in more than one sector. For example, the Milan Case Study describes how the city identified the need for investment in two different sectors, energy efficiency in housing and the rehabilitation of the markets. The solution identified uses a single IFM to implement investments in both sectors through a single fund structure.

The figure below presents how the multi-sector fund could mobilise capital from investors with different risk appetites and investment horizons, including public and private sector investors. It also illustrates how the funds are channelled through investment compartments (ring fenced money within a single fund) that reflect the city projects' financing needs, in the sectors such as energy efficiency and urban development. Further compartments could be created in the future if the city needs and project pipeline evolves.

In this model, each investor would invest directly in the compartment of his individual choice. The funds mobilised at the **compartments level are leveraged at the project level**. Each compartment covers a predefined sector, in which a market gap has been identified and the city would like to **make an intervention**.

Each sectoral compartment invests directly in specific projects selected by **the IFM**. In some cases, the investment could be done through financial intermediaries (as discussed before). It is important for this model to find an IFM, whose competences correspond with the thematic areas of the fund. As a result this model is likely to be potentially suitable for cities with investments in

Figure 7: Multi-sector Fund set-up



related sectors such as urban development and energy efficiency (as in Milan) and Economic Development and Energy Efficiency (as in Manchester).

The experience of the MRA RICE partners to date shows how cities can use existing financial instruments and IFMs to extend the operations into other sectors. In The Hague, for example, one of the funds under the HEID (i.e. VIN - Fisheries Innovation Fund) which uses EMFF resources and operations was implemented under the existing JESSICA structure. Similarly in Manchester, Evergreen II was set up to include low carbon/energy efficiency investments under the same IFM as its more established economic development and commercial building operations.

2.1.4.3 Holding Fund

Both options discussed above can be used with or without a Holding Fund structure, depending on the needs of the city. The experience of MRA-RICE partner cities, i.e. London, Manchester and The Hague, proves that this structure can be used successfully when implementing city funds.

A Holding Fund is a separate body that "holds" the investment on the public authority's behalf, discharging the authority's responsibilities for setup and monitoring of the instrument. In the case of the instruments in Manchester and The Hague, the Holding Fund is an entity wholly owned by the city. In other cases the Holding Fund can be managed as a ring-fenced account held by a financial institution (such as an NPBI or IFI) on the authority's behalf.

Typically a Holding Fund will be a Fund of Funds holding several different financial instruments allowing resources to be moved between them to respond to demand. However, a Holding Fund can be set up for a single operation where it represents the most efficient way for the city to discharge its responsibilities and/or to secure the involvement of specialists, such as financial experts, in the creation, implementation and delivery of the city fund and its products.

2.1.5 An implementation step by step

The issues to be considered to facilitate access to finance for cities' projects include the following:

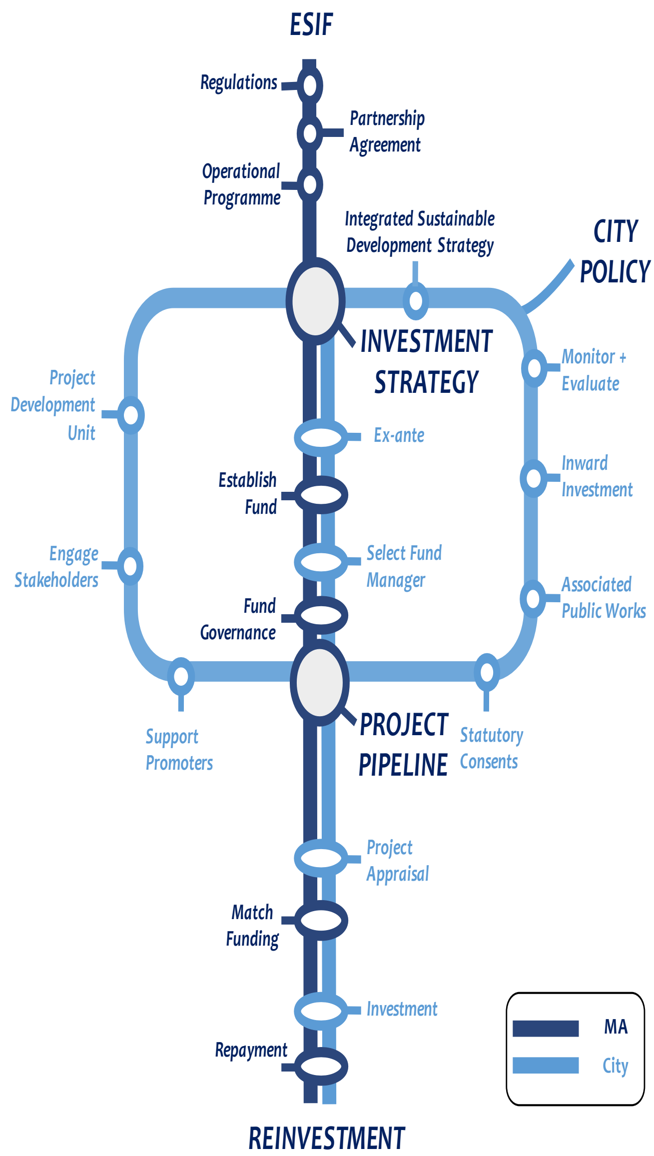
1. Firstly, the city must secure the commitment of ESIF resources for the operation. Alternatively local or national resources may be used.
2. Next, the city must undertake the steps required under the CPR to assess the market failures and demand and identify the funding gap that can be addressed by a financial instrument. This will allow potential public and private co-investors with different risk profiles and investment horizons to identify who may invest into the new financial instrument.
3. The governance structure and investment strategy should be designed, and the processes undertaken for the selection and appointment of an IFM, to set-up the city fund.
4. The negotiation and finalisation of the appointment of the IFM will trigger the setting up of the fund. Typically, during this period the investment strategy and governance model will further develop to reflect the proposals of the IFM both in terms of target investments and likely co-investors (at fund or project level).
5. The selection of projects and the deal structuring by the IFM will commence and be approved through the financial instrument's governance arrangements.
6. Projects will be monitored by the IFM to ensure delivery of both financial and strategic outputs

At all stages, **Technical Assistance can support the smooth process implementation**, e.g. set-up of the city fund, assessment of needs and project pipeline development (all blocks of the Technical Assistance are discussed in details in the Chapter on Technical Assistance).

The steps to be taken by a city to establish an ESIF financial instrument are shown in the CSI Europe Route map shown at Figure 8.

The CSI Europe Route map shows the formal steps that must be taken under Arts 37-46 of the CPR, together with how the set-up of the instrument can be aligned with other activities in the city to maximise the success and impact of the operation. The experience of the partner cities shows that cities have access to the skills necessary to undertake these activities and embed them in their organisation so that ESIF financial instrument operations can form an integral part of a city's actions to deliver social and economic development of its urban area.

Figure 8: CSI Europe Route Map



In particular the CSI Europe Route map highlights how the implementation of a financial instrument by a city is a long-term ongoing process. The city contributes to the definition of the initial Investment Strategy of the financial instrument and through its ongoing strategic role should seek to ensure that the financial instrument is flexible enough to adapt to changing circumstances.

Likewise, the city can, through the deployment of technical assistance, whether from its own resources or through EU platforms support the development of an ongoing pipeline of projects, aligned to its strategic priorities that can, subject to the independent appraisal of the IFM secure investment from the financial instrument. The experience in the partner cities is that by playing this role, the capacity within a city to manage, design and develop financial instrument operations increases, contributing to increased effectiveness of subsequent operations and creating the potential to further scale up actions in the future.

2.2 Investment Strategy

The Investment Strategy of an ESIF or other public funding financial instrument is typically initially defined by the Managing Authority or other public promoter setting up the instrument, based on an initial ex-ante assessment. The experience of the MRA-RICE cities is that this is a critical activity and, therefore the **involvement of the city in a leading role is a fundamental requirement** of the MRA-RICE blueprint. This ensures that the investment strategy will be aligned with the city's integrated sustainable urban strategy.

The initial strategy will form the basis of the selection process for the IFM. Importantly, however, the process should allow for the refinement of the Investment Strategy, with the city's active participation and approval, to allow the proposals of the IFM and other investors to be incorporated in the final version. This will ensure that the final strategy reflects both the city's strategic priorities, investor appetite and the IFM's view of where the resources can be best deployed to maximise the financial sustainability and strategic impact of the financial instrument.

The Investment Strategy will describe the financial products of the city fund that should be designed to meet both the **city's financing needs** and the **market failure** in terms of financing. They should be developed for those sectors, which need public interventions in order to access private sector capital.

The table below shows together the thematic focus areas that have been identified among cities' strategic priorities with the financial products' that are needed. The last column brings references to the existing city fund that have operated in partner cities and are presented in details in case studies.

Table 2: Sectoral breakdown of financing need

Thematic focus area	Financing needs	Existing city funds
Transport projects	• Long-term debt with a grant component for infrastructure development	• Finance through public grants/ bonds
Energy projects	• Debt and subordinated debt products, including high risk debt with high tenor, for innovative projects	• MEEF (London) • ED (The Hague)
Economic development projects	• Debt and subordinated debt	• Evergreen (Manchester)
Housing and commercial buildings	• Debt and subordinated debt for development phase	• Evergreen (Manchester)
Green and blue infrastructure projects	• Equity/Quasi-equity for blue and green infrastructure projects	• N/A
Integrated projects, i.e. regeneration and development of new areas	• Long-term blended instrument with debt, equity and grant components (or separate operations) for integrated projects	• N/A

The current experience of the MRA-RICE partner cities is that **the most successful products for supporting urban development are senior debt and subordinated debt**. These are being used effectively in all three of the cities with existing financial instruments where there is a long-term market failure in these sectors. The causes of the market failure may vary from place to place and typically will include lack of detailed knowledge of local development conditions within national funders, limited scope to invest in speculative development (no presale), limits on amounts of capital that can be deployed in a region, lack of specialist technical knowledge to appraise risks of innovative products and lack of flexibility of requirements for collateral/security.

Under the MRA-RICE blueprint, the nature of the market failure will be identified ex-ante during the set-up of the financial instrument. It is anticipated that in the future senior and subordinated debt products will remain the most important products as, in addition to addressing many of the most common causes of market failure, such products are also easy to understand and deploy alongside co-investment at project level. For example in Manchester the Evergreen Fund typically invests senior debt alongside other public and private investors in "club deal" type arrangements.

The fund also can invest at a mezzanine level where it can bridge the gap between the promoters' equity and the amount of senior debt they can raise.

The table below shows the main features of some of the existing financial instruments that have been set up by the MRA-RICE partner cities:

Table 3: Examples of products from existing city funds

Mayor of London's Energy Efficiency Fund	
Scope	• Financing for investments in Renewables, Energy efficiency and Decentralised Energy
Products	• Senior debt that constitutes over 90% investments made by the fund and equity, which represents up to the remaining 10% • Public sector corporate loans for a specific business purpose, such as capital expenditure; at least 70% of senior debt (small business can also be funded) and • Project finance loans given to project promotors for project realisation, 30% of senior debt.
Loan conditions	• Project specific, depending on the market failure • Size: GBP 1 m to 10 m • Tenor: up to 20 years
Security	• MEEF can provide senior and mezzanine debt supported by appropriate security packages.
State aid	• The loans will be provided under market conditions on pari passu basis or through the utilisation of existing state aid measures such as GBER, thus ensuring market conformity.

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 to fulfil the market failure 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: an average tenor about 12 years
Security	• One of the preconditions for the financing, is the repayment of initial investment

State aid	• Blended approach, referred to as 'cascade' approach – where possible transactions were made under market conditions. • In case of State aid involvement, compatibility with General Block Exemptions Regulations (GBER) was assessed. • State aid notification was used, where transactions where not market-conform and no exemptions were applicable.

North West Evergreen Fund	
Scope	• Financing for development phase in Low-carbon infrastructure and in Science, Technology and Innovation
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 2 m to 12.5 m • Tenor: up to 5 years
Security	• Senior debt investments are secured against the development land • The fund can be flexible to allow borrowers to swap phases in and out of security package to enable early phases to proceed/sold • Inter-creditor arrangements common for senior club deals and subordinated debt investments
State aid	• IFM competitively selected (MEAT) and no private fund level co-investment • Most investments are made under market conditions • Evergreen I has benefit of a notified scheme that has been used for one sub-market value investment

Note: Interest rates strictly confidential

In addition to the existing products currently in operation, the Phase 1 study identified investment needs that are not currently being served by financial instruments. These included support for blue/green infrastructure projects and integrated projects with a range of requirements. The MRA-RICE blueprint could potentially in the future be extended by cities to include products that have met these needs.

It is proposed that, the city fund should aim at a **portfolio approach to facilitate integrated projects**. These projects appear to be strategic for all cities, since they focus mainly on urban regeneration, as well as urban development. Integrated projects are composed of the individual projects in infrastructure development, housing, blue and green infrastructure, and transport.

In order to address their funding needs and the market gap, a city fund could be set up to provide long-term **blended finance with debt, equity and grant components for integrated projects**.

Such a city fund would be innovative and would, to be successful, need to simplify the funding process for project promoters to enable them to unlock access to:

- Long-term debt with a grant component for infrastructure development projects;
- Equity/Quasi-equity for blue and green infrastructure projects;
- Subordinated debt, including high risk debt with high tenor, for innovative projects.

2.3 Leverage of financial instruments – attracting co-investors

A key benefit of the use of financial instruments is the leverage effect, the ability of the financial instruments to use the initial ESIF (or other public) contribution to mobilise significant additional public and/or private investment into priority projects. The MRA-RICE blueprint is designed to make the city fund "investor friendly" potentially meeting the needs of national and EU-wide funders such as NPBIs, the EIB and other IFIs and private sector investors alike.

Therefore, during the set-up of the fund, the right **potential co-investors** should be identified. This will, in most cases, be the responsibility of the IFM although cities may be able to identify potential public and private sector investors as well. In particular, the MRA-RICE partner cities are keen to identify ways in which new and/or existing funds might be structured in order to secure fund level investment from EFSI, other EIB resources and/or further EU-level sources of investment (the so called potential Juncker Fund for Cities).

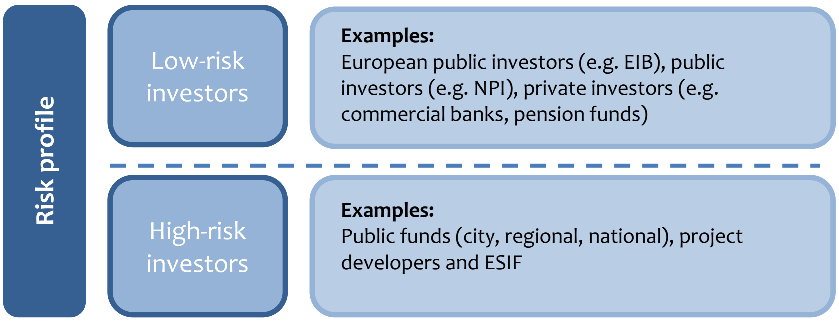
Investors will contribute to the fund based on their risk appetite. A city might, for example, attract private sector as well as low-risk profile investors by accepting that the ESIF and/or other public resources take the junior risk (i.e. highest risk) part of the financial instrument's projects portfolio.

The MRA-RICE blueprint allows other public and private investors to join the model both at the fund level and also at the level of projects. In the case of project level co-investment, the IFM leverages the invested public capital into the fund by securing additional resources for individual projects. In some cases, subject to State aid issues being addressed, the money invested into the fund by public sector contributions could be used to cover the highest-risk parts of selected projects so that others (public or private) would also invest.

Cities should, therefore, treat the **public funds as a tool** which enables them to boost public priorities by involving lower-risk investors, such as commercial banks, EIB, National Promotional Institutions or philanthropic institutions that otherwise would not invest. In addition, **public funds can play a role of the bridge**, providing more patient capital that secures access to finance at the early stage of the investment, for instance when an infrastructure project needs to be developed. This upfront investment made using public sector money brings private sector capital to the funding scheme later on.

The figure below illustrates, how risk profiles are shared among public and private investors.

Figure 9: Investors risk profiles



The share between low-risk and high-risk capital allocation should correspond with projects financing needs and should **reflect how much high-risk capital needs to be employed to unlock access to low-risk capital.**

The high risk capital can come from the public funds as well as from the project developers. The investors with low-risk appetite can join the scheme:

- At the beginning, contributing to the city fund;
- At the match-funding level, investing in individual projects; as well as
- At the end of the investment period, if some contracts with borrowers need extensions.

Based on partner cities' experience, the majority of the co-investment to date is made at project level. Typically, it is achieved through involving higher-risk capital from the project promoters or in some cases, the city fund, and offering senior tranches to other investors. These deals are made either through deploying a large junior tranche or a pari passu senior tranche under a **club of investors**, which bring together potential investors.

However, there is evidence that cities with long established financial instruments are beginning to attract investment at fund level through new innovative methods. London's MEEF has successfully created a model of the city fund in energy efficiency, where the IFM has developed both a strong pipeline of investment-ready projects and has attracted potential co-investors to join a panel of investors, who are aligned with the fund investment strategy. Involvement of the same Fund Manager in the governance structure key to enabling the city to develop a club of investors.

Another example of an innovative approach to co-financing is in Manchester where the IFM has negotiated the sale of part of its loan book to an investor allowing the early recycling at fund level of the funds committed to the projects assigned to the investor.

The development of Investment Platforms under the Investment Plan for Europe that combine EFSI with other public and private resources (including ESIF) reinforces the potential for city funds in the future to attract EFSI or similar resources at fund level, which in turn might enable further leverage through the private investment. The MRA-RICE blueprint provides a framework within which this can be achieved.

2.4 Governance structure

2.4.1 Role of the city

The city has an important role in the design and set-up of a city fund. Following the best practice observed among partner cities, a **strong political commitment, robust internal organisation** and the **development of a team of city experts in financial instruments** are **critical drivers to build the city capacity** in sponsoring public projects.

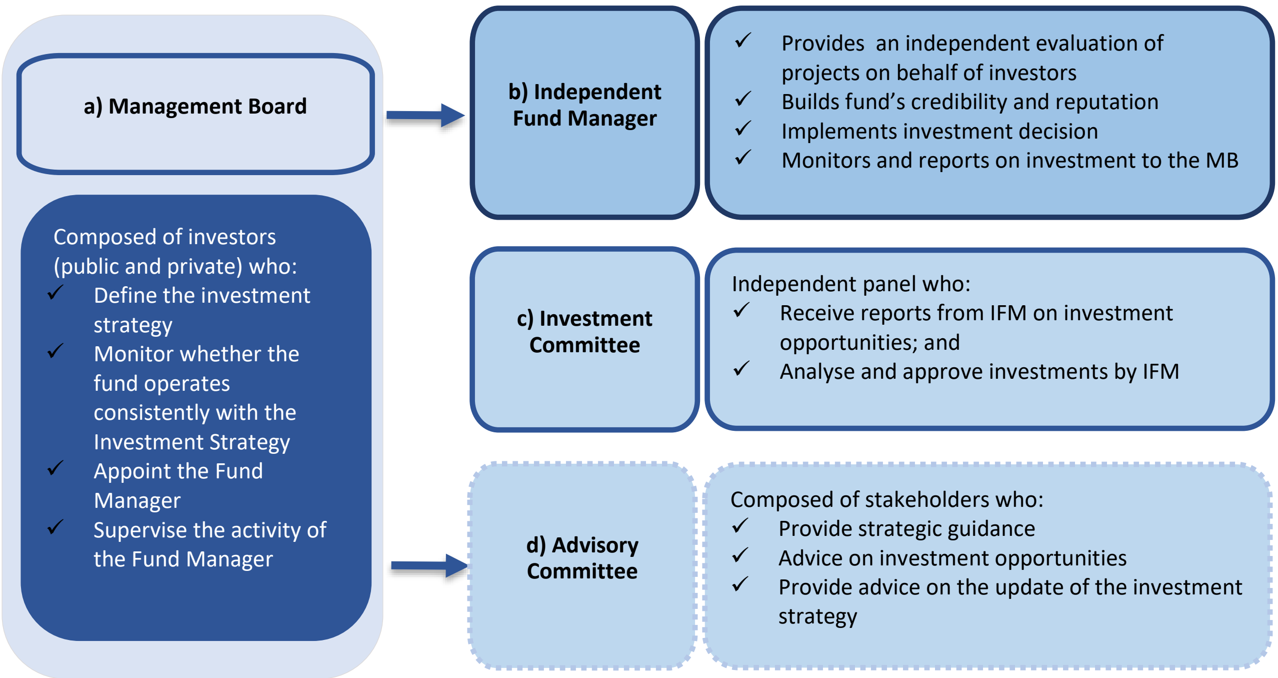
In the set up process of the city fund, the city should seek to act as the project promoter, securing the public financing, including the ERDF resources and other public funds, and taking on the risks of delivery and implementation to enable it to lead the development and delivery of the proposed financial instrument operation. Where this is not possible, the city should, nevertheless seek to establish itself as a key partner to the fund's promoters (and in due course the IFM) to ensure the City's strategic priorities are reflected in the investment strategy and to secure a degree of oversight of the financial instrument's performance over the long-term.

It is important that the **city gives a mandate to an independent body** i.e. an IFM to build both a strong eco-system of investors and the reputation of the city fund.

2.4.2 Key governing bodies

The key governing bodies of the city fund are a) the Management Board, b) the independent Fund Manager, c) the Investment Committee and d) the Advisory Committee.

Figure 10: Governance main bodies



As can be noted, the **Management Board**, which represents the City, has a strategic role in:

- Defining and amending the investment strategy,
- Monitoring whether the fund operates consistently with the investment strategy, and
- Supervising the activity of the Fund Manager.

The role of the **independent Fund Manager** is to:

- Proactively identify potential projects to be financed,
- Provide an independent evaluation of projects on behalf of all investors and based on predefined selection criteria,
- Implement investment decisions (taken by the Investment Committee) based on the fund's investment strategy, as well as
- Monitor and report on investments to the city and investors.

The Fund Manager works also on the preparation of the projects' pipeline and on match-funding for selected projects, which will benefit from the funding from the city fund. For strategic purposes, the **city should collaborate closely with the Fund Manager** in order to facilitate the implementation of the investment strategy is implemented.

The role of the **Investment Committee** is to:

- **act independently from the city**,
- analyse the pipeline of projects proposed by the IFM and
- take investment decisions based on the fund's investment strategy.

The Fund Manager and the Investment Committee may be linked as, for example, in London where the Investment Committee is part of the same group as the IFM. The Management Board may retain some limited rights of approval of the members of the Investment Committee (for example to ensure members are appropriately qualified) but importantly do not control the committee.

Critically, however, the IFM and Investment Committee are two separate bodies, and are not composed of any of the city's representatives. This is one of the key mechanisms within the governance structure to ensure both that the IFM has a robust project and appraisal procedure, with appropriate scrutiny in place, and that investment decisions are then professionally led and taken by the IFM and Investment Committee, without the direct involvement of the City.

The role of the Investment Committee is a key factor in any due diligence exercise undertaken by potential third party funders considering investing at a fund level. For this reason it is considered to be an essential part of the MRA RICE blueprint which seeks to create an investor friendly structure capable of attracting significant leverage of the ESIF resources.

The role of the **Advisory Committee**, is to:

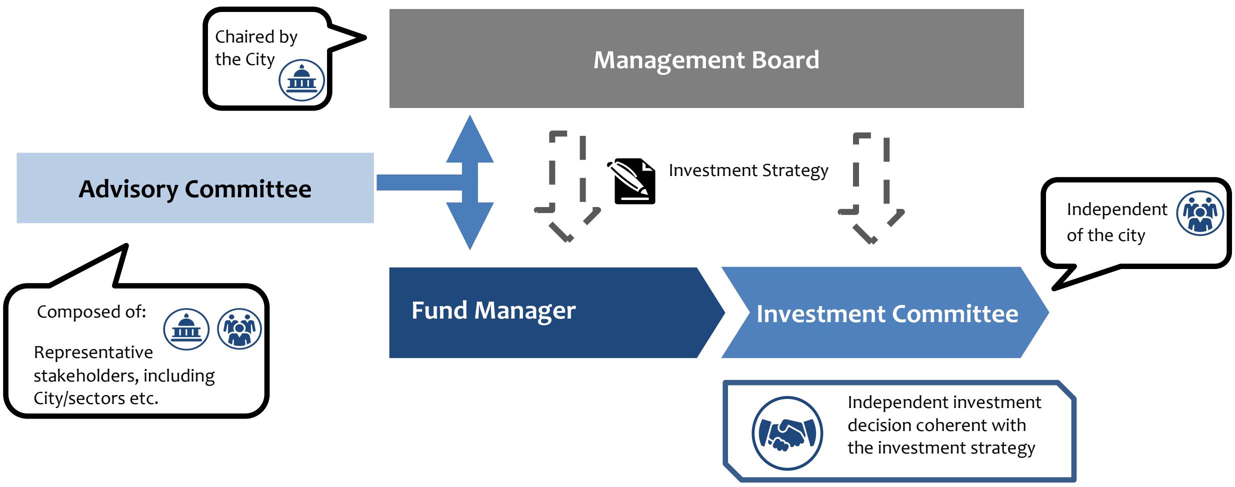
- provide **strategic guidance** to the city fund
- **advise** on investment opportunities and
- **recommend** potential amendments to the **investment strategy**.

The Advisory Committee can be composed of strategic investors as well as the city representatives and independent experts.

2.4.3 Decision making process

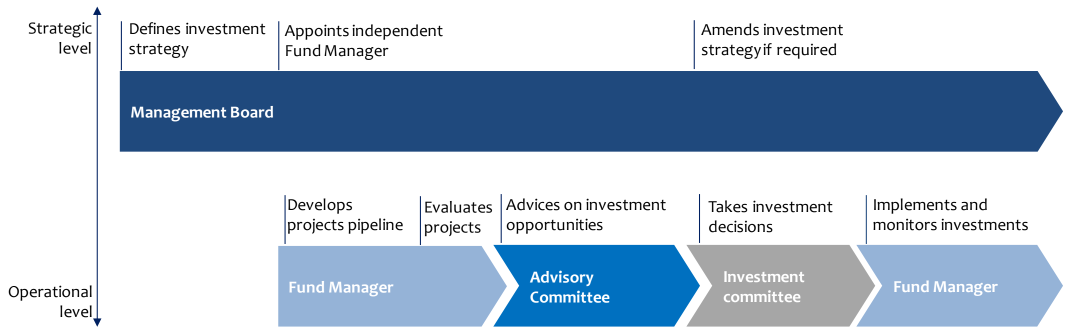
The decision making process is illustrated in the figure below.

Figure 11: City fund decision making process



Within this structure, the Fund Manager preselects and develops the project pipeline on the basis of the investment strategy, while the Investment Committee approves and gives a final clearance for projects to receive financing from the city fund. The key steps of the investment process and the interactions among the governing bodies for each step of the investment process are shown in the Figure below.

Figure 12: Overview of the key investment processes and governing bodies involved



3 The regulatory framework

3.1 Introduction

The legal framework for the implementation of ESIF financial instruments for urban development in the 2014-2020 programming period is contained in the following regulations:

- The Common Provisions Regulations ((EU) No 1303/2013) (CPR);
- Commission Delegated Regulation ((EU) No 480/20144) (CDR); and
- Commission Implementing Regulation ((EU) No 821/20145) (CIR).

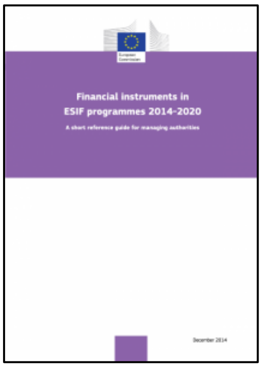
The rules are well established and **the European Commission has published extensive guidance** to support the implementation of financial instruments within the framework. This section will not seek to repeat or elaborate the guidance in any detail but will aim to provide a "guide to the guidance" to help **identify the key resources available to practitioners** seeking to establish a financial instrument under the MRA-RICE blueprint. In addition, financial instruments must be implemented in accordance with the EU rules regarding public procurement and State aid which are also briefly considered below. Finally, the implications of **the Omnibus regulation** which has recently entered into force and the draft proposals for the next Multi-annual Financial Framework are briefly considered.

3.2 Implementation under the Common Provisions Regulations

The main rules governing ESIF financial instruments in the 2014-2020 programme period are set out in **Articles 37-46 of the CPR**. They are supplemented by the CDR, which includes supplementary requirements regarding the selection and appointment of financial intermediaries and the CIR which describes the detailed reporting requirements for MAs.

3.2.1 Overview

These rules, together describe a sequence of activities that must be undertaken by a managing authority or other body (including a city) that is implementing an ESIF financial instrument. In December 2014, the European Commission published an **introductory guide[5] to financial instruments in the 2014-2020 period** which introduced the key concepts of the (then new) regulations.



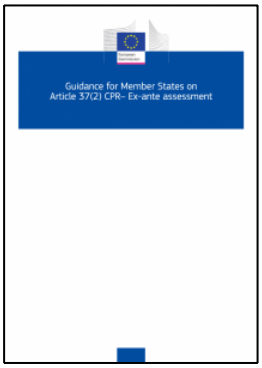
The short reference guide provides an overview of the main elements of the CPR, including the strategic context, the implementation options (from ex-ante assessment to management costs), payments and monitoring, reporting and audit.

The guide also identifies the technical assistance available and highlights the *fi-compass*[6] platform which was set up by the European Commission, in conjunction with the EIB, to provide horizontal assistance to MAs and their partners in connection with financial instruments.

[5] https://www.fi-compass.eu/publication/ec-regulatory-guidance/ec-regulatory-guidance-ec-short-reference-guide
[6] https://www.fi-compass.eu/

3.2.2 Ex-ante assessment

When a MA or other public authority is considering setting up a financial instrument, it is required by Article 37(2) to first undertake **an ex-ante assessment** to assess the feasibility of a financial instrument. The European Commission published guidance[7] on undertaking an ex-ante assessment, which provides a comprehensive source of information on how to meet the requirements of the CPR.



The guidance, which was developed by the European Commission is intended to provide a good practice methodology that is both general and also sector-specific. It includes links to more detailed methodological guidance that can be used as a toolbox for MAs in the preparation of the ex-ante assessment.

In addition, the document contains some frequently asked questions which further elaborate on the rationale and objectives of the ex-ante assessment process.

Each of the partner cities have undertaken an ex-ante assessment as a preliminary step in the development of their financial instruments and this experience shows the importance for cities to have the capacity to manage such processes efficiently. A good ex-ante assessment should both meet the requirements of the CPR but also, importantly be the foundation for the design and implementation of the financial instruments that follow.

3.2.3 Implementation options

Following the ex-ante assessment, the MA or other public body must finalise its investment strategy (based on the recommendations of the ex-ante assessment) and identify its preferred option for implementation. It would be at this stage that the city would make the final decision to proceed with the MRA-RICE blueprint, although the option should have been considered within the ex-ante assessment.

The **Staff Working Document**[8] published by the European Commission in October 2017 explains the **different implementation options**.

The partner cities' experience is that financial instruments such as the MRA-RICE blueprint should be implemented through the entrustment of FI management to an "other public or private entity" as referred to under Article 38(4)(b) of the CPR. In such a case the SPV formed by the city would be the legal entity entrusted with the responsibility. This would then appoint the IFM to manage the financial instrument on its behalf.

7 https://www.fi-compass.eu/publication/ec-regulatory-guidance/ec-regulatory-guidance-guidance-member-states-article-372-cpr-ex

8 https://www.fi-compass.eu/publication/ec-regulatory-guidance/ec-regulatory-guidance-guidance-note-implementation-options

3.2.4 Combination of support with EFSI and other measures

A key benefit of financial instruments generally is their ability to leverage additional resources. This is a key objective of the MRA-RICE blueprint. The CPR permits ESIF financial instruments to be combined with other forms of support such as grants and, importantly other sources of finance, in particular the European Fund for Strategic Investments (EFSI).

The **European Commission's guidance on combination**[9] describes how technical assistance can be combined with a financial instrument operation, enabling the IFM to provide initial funding for technical support to potential future recipients.

It also describes how investments from financial instruments may be combined with other forms of support (e.g. grant) from other operations to provide funding necessary for projects. The MRA-RICE blueprint has the potential to adopt either or both of these approaches as may be best suited to the needs of the city.

Further, in February 2016, following the adoption by the European Commission of the Investment Plan for Europe (or Juncker Plan), which included the EFSI, the European Commission published a **guide to the combination of ESIF and EFSI funds**. At the time, European Commission Vice-President Jyrki Katainen, responsible for Jobs, Growth, Investment and Competitiveness, said "*The EFSI was created to be as flexible as possible and there are huge opportunities for project promoters to apply for EFSI financing as well as ESI Funds. The guidelines we are publishing today give practical advice to businesses looking for project financing on how to make the best use of both instruments*".

The guidance on combination of ESIF with EFSI[10] describes the basic concepts behind the combination of the different resources.

The MRA-RICE blueprint is designed to be able to attract and mobilise resources such as EFSI alongside the initial public contribution of ESIF or other local resources.

Since the publication of the guidance, examples of successful financial instruments that combine these funds are emerging. A good early example is the CAP TRI[11] project in Hauts-de-France.

3.2.5 Monitoring, reporting and audit

In addition to the guidance described above, the European Commission has published additional guidance in relation to the administration of financial instruments. These include guidance on

[9] https://www.fi-compass.eu/publication/ec-regulatory-guidance/european-structural-and-investment-funds-guidance-member-states

[10] https://www.fi-compass.eu/publication/ec-regulatory-guidance/new-guidelines-combining-european-structural-and-investment

[11] https://www.fi-compass.eu/publication/case-studies/case-study-cap-troisieme-revolution-industrielle-nord-pas-de-calais-france

requests for payment under Art 41 CPR[12], eligible management costs and fees under Art 42(1) CPR[13], and treasury management issues under Art 43 CPR[14].

3.3 Selection of Fund managers

Article 38(4) of the CPR provides that the **EU public procurement** rules apply to the selection of bodies to implement financial instruments. The ability to effectively manage a selection process within the procurement legal framework is, therefore, a key requirement for cities and other bodies seeking to establish a financial instrument based on the MRA-RICE blueprint.

The European Commission published **comprehensive regulatory guidance on selection**[15] in August 2016. It describes the different options for selecting bodies for the implementation of financial instruments.

The experience of the MRA-RICE partner cities would suggest that one option for implementation of the blueprint would be to use the "in-house award" and/or "interadministrative co-operation" models for entrusting the financial instrument to the SPV, followed by the competitive selection of the IFM under Art 7 CDR and applicable EU and national procurement legislation.

It will, however, be a matter for the individual city to determine the appropriate selection approach to adopt to meet the needs of the financial instrument. As discussed below, following the introduction of the Omnibus regulation, there may be greater flexibility for MAs and other public promoters of financial instruments where ESIF is combined with EFSI in an EU level instrument.

3.4 State aid

Involvement of public financing in a city fund for urban development can unlock financing for projects, which would otherwise face difficulties in obtaining necessary capital due to imperfect market conditions. Engagement of public resources in a city fund addresses the risk averseness of private investors and provides confidence for private sector investors to join the scheme according to their risk appetite. However, involvement of public financing requires an assessment of whether the engagement of public resources qualifies as State aid. In May 2017, the European Commission published a **Staff Working Document on State aid**[16] which described how the regulatory framework applies to financial instruments.

---

[12] https://www.fi-compass.eu/publication/ec-regulatory-guidance/ec-regulatory-guidance-guidance-member-states-article-41-cpr

[13] https://www.fi-compass.eu/publication/ec-regulatory-guidance/ec-regulatory-guidance-guidance-member-states-article-421d-cpr

[14] https://www.fi-compass.eu/publication/ec-regulatory-guidance/new-guidance-note-about-interest-and-other-gains-generated

[15] https://www.fi-compass.eu/publication/ec-regulatory-guidance/ec-regulatory-guidance-guidance-member-states-selection-bodies

[16] https://www.fi-compass.eu/publication/ec-regulatory-guidance/ec-regulatory-guidance-guidance-state-aid-european-structural

The Staff Working Document highlights the importance of the State aid rules, which changes considerably in 2013/14 to provide new options for implementation of financial instruments.

The working document explains how State aid may exist at all the different levels of the fund and gives examples of how such issues are addressed.

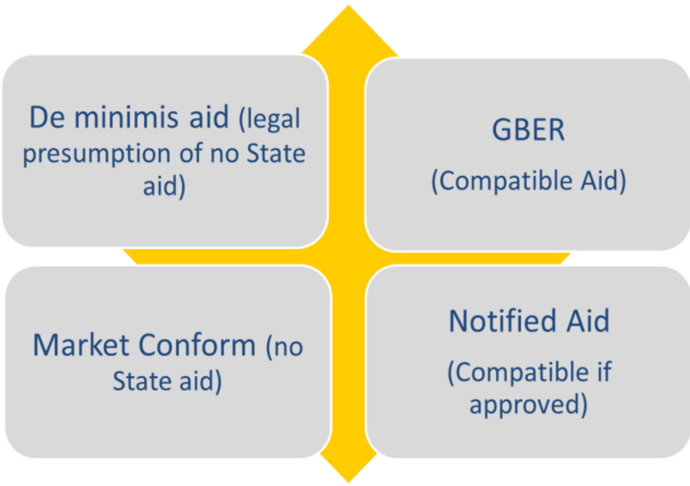
The working document also explains that ESIF resources under shared management (i.e. under the control of a MA) are treated as state resources and are therefore subject to the State aid rules

This contrasts with the position for ESIF resources that are managed at an EU level which are not managed by a single state and therefore fall outside the scope of the State aid rules. The guidance explains that such EU level funds are not subject to the State aid rules although should be managed in a way consistent with the principles of the rules. In practice this allows more flexibility in addressing the impact of measures on the market when implementing financial instruments through an EU level fund.

The MRA-RICE blueprint can potentially work under both the full State aid legal framework (if using ESIF or other public resources under the control of the state) and, to the extent that a contribution from an EU level instrument was secured and Member State discretion limited, a State aid consistent EU level operation. At present, the MRA-RICE partner cities use a range of different State aid rules to ensure compliance with the framework.

There are **four principal options for demonstrating compliance with the State aid rules** shown below in Figure 13.

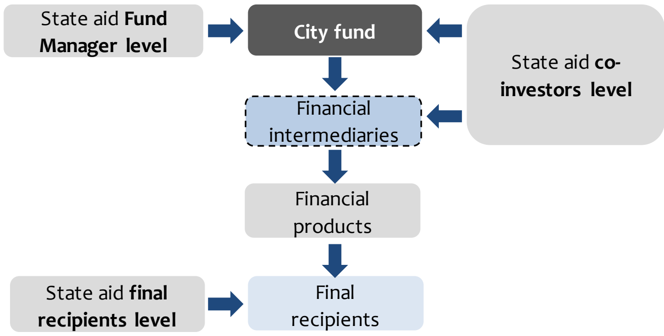
Figure 13: State aid compliance options



Further description of the different options and how they can be applied can be found in the Staff Working Document published by the European Commission and referred to above.

Due to the multi-layer character of the MRA-RICE blueprint city fund, the compliance with State aid rules must be verified at the level of every economic operator involved in a city fund, as illustrated in the Figure 14.

Figure 14: Multi-level approach



In the case of the MRA-RICE partner cities the experience shows that the MRA-RICE blueprint can be suitable for a range of different State aid approaches. Examples from MRA-RICE include:

- The use of GBER to support investments in Energy Efficiency;
- The application of de-minimis for relatively small investments with a low gross grant equivalent;
- The use of market conform investments to address market failures related to the availability of capital for investment rather than the cost of capital;
- Investment at zero interest under a notified State aid scheme to address specific market failure in an urban area; and
- Competitive selection of IFM with either no co-financing commitment or pari-passu equity contribution on same terms as public capital.

The City of The Hague's experience with State aid in the context of city fund offers a number of insights, notably:

- As the State aid notification procedure takes time, it is worth considering to commence the notification procedure prior to the implementation of the city fund.
- At the stage of implementation of the city fund investments involving market-conform financing can be excluded from the State aid examination scope.
- The remainder of investments, which are non-market conform are benchmarked against General Block Exemption Regulation (GBER) to check if they are eligible for State aid notification exemption
- At the same time it needs to be assessed if they fall under the de minimis threshold and as such are exempted from notification

---

Further details of the State aid approaches adopted by the MRA-RICE partner cities for their current financial instruments are set out at section 2.2 above (Table 3).

3.5 The Omnibus Regulation

On 30th July 2018, the Omnibus Regulation ((EU/Euratom) 2018/1046)[17] was adopted. This wide ranging regulation includes a number of measures that aim to facilitate the combination of ESIF financial instruments and EFSI.

Article 272 makes a number of amendments to the CPR in this respect. Some of the key changes that may be important for the MRA-RICE blueprint include:

- The addition of a new implementation option to the CPR (Art 38(1)(c) CPR) that expressly authorises the commitment of ESIF resources to a financial instrument that combines ESIF with EFSI;
- A new article 39a CPR which regulates financial instruments that combine ESIF and EFSI. The article is intended to provide greater flexibility, for example by relaxing ESIF co-financing requirements or the possibility to rely on the preparatory due diligence provided by the EIB for EFSI ; and
- A new article 43a CPR that sets out the basis for using ESIF funds in financial instruments that provide differentiated treatment to EFSI and private investors.

The delegated legislation and guidance that will accompany the Omnibus regulation has not been published at the time of writing this report. However, the above provisions may provide additional flexibilities that would be helpful to the development of the MRA-RICE blueprint. For example, the proposed layered fund to attract investors would benefit from the new provisions on differential treatment. Similarly, the framework for commitment of ESIF resources to EFSI instruments may provide a simplified option for implementation of the MRA-RICE blueprint city fund through an EU level instrument.

3.6 The 2021 – 2027 Multi-annual Financial Framework

The European Commission has published draft legislative proposals on Regional Development and Cohesion post 2020. The regulations have been published in two documents:

- A draft Common Provisions Regulations (CPR) (2018/0196 (COD)) that sets out the general rules for seven of the Structural Funds (excluding EAFRD); and
- A draft ERDF and Cohesion Funds Regulation (2018/0197 (COD))

There are a number of proposals that would potentially support the MRA-RICE blueprint and the proposed EU Level Fund described at Chapter 4. For example, the InvestEU programme, which is proposed to bring all EU budget financing in the form of loans, guarantees and equity investments under one roof, could include an EU level fund to support urban development through city funds that use the MRA-RICE blueprint. This could work alongside TA measures to support the increased use of the model to support urban development. Such measures would support the renewed emphasis on integrated sustainable urban development in the context of the priority objective of "bringing Europe closer to citizens by fostering the sustainable and integrated development of urban, rural and coastal areas and local initiatives ('PO 5')".

[17] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018R1046&from=EN

4 The EU-level Multi Region Urban Fund

During Phase 2, the partner cities explored **the potential to establish an urban fund at EU level** as a way to mobilise ESIF, as well as other national and EU funding, to finance city funds in the future. A future Multi Region Urban Fund (MR UF) would take advantage of the MRA-RICE blueprint city fund described at Chapter 2 to provide an accessible model for cities to secure co-funding to establish a financial instrument to support urban development.

At the same time, the partner cities identified that the MRA-RICE blueprint city fund will not be suitable for all cities. In particular, many smaller cities will have neither the critical mass of urban projects nor the capacity within its organisation to justify establishing its own fund. The MR UF has therefore been designed to also allow regional or national urban funds to be established and funded to support urban projects in those cities without a dedicated city fund.

4.1 Overview

The MR UF would be designed to work within the existing (or future) ESIF governance framework and would provide a way to both **leverage at an EU level ESIF resources** through combination with EFSI (or similar) **and other public and private investment**, and provide cities with access to the EU level ESIF funds (and leverage) to enable the set-up of a MRA RICE city fund. It would be a financial instrument set up under the indirect management of the European Commission who would appoint an International Financial Institution (IFI) to manage the fund on its behalf.

The fund could, for example, utilise a junior tranche of investment that would be contributed to the EU level instrument by the Commission from ESIF. For example Art 92 (8) of the CPR provides that Structural Funds shall be allocated to innovative actions under direct or indirect management by the Commission in the area of sustainable urban development. Such an action could be implemented through a mechanism similar to the contribution of ESIF to the Connecting Europe Facility as described at Art 92(6) CPR, potentially as part of a future InvestEU programme.

Under the proposed model the EU level fund would combine the EC contribution in a layered fund with EFSI funding (or similar) and other funding, including potentially private sector funding. This would have the potential to provide a substantial EU level Multi Region Urban Fund that would then be combined with City or Managing Authority (MA) funding from either locally managed ESIF or other resources, to finance multisector city funds to support urban development.

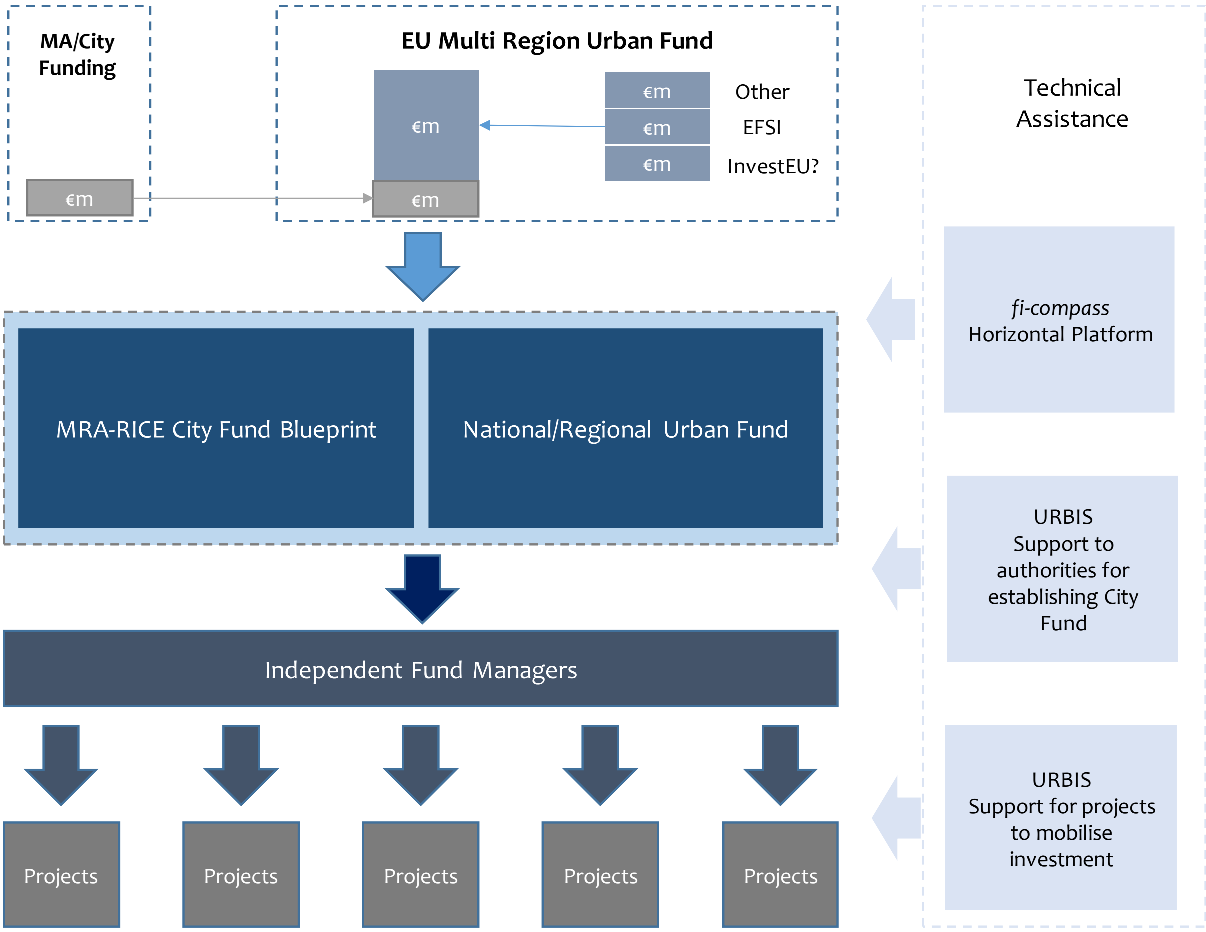
The Multi Region Urban Fund could provide cities with multiple opportunities to access ESIF for financial instruments to support urban development including:

- Through a contribution from the MA to the MR UF being ring-fenced to the City
- Through accessing additional ESIF committed by the EU at fund level and
- Allowing use of any ESIF grant it receives from the MA at a city fund level

The model would be flexible to allow the fund to participate in different sized funds, to reflect the scale of demand. Once established, as demand increases and the EU level fund develops a portfolio of investments, further options may be identified to secure additional public and private funding to allow the continuation of the fund once the initial investment fund has been committed.

The overall design of the fund is shown in Figure 15below.

Figure 15: A possible EU Level Multi Region Urban Fund



4.2 Advantages of a Multi Region Urban Fund

A MR UF would have the potential to **significantly accelerate the use of ESIF resources** to fund financial instruments for urban development. The fund would draw together the experience of successful city funds, including those featured in MRA-RICE and lessons learned from the implementation of investment platforms for urban development under EFSI to inform the design of the EU level instrument.

Some of the benefits of a MR UF would include:

- **Providing cities with access to EU level ESIF resources**. The model should incentivise Managing Authorities to participate in the model in order to secure the benefit of the leverage available through the MR UF. Additionally other incentives for MA investment could include a relaxation of the ESIF co-financing requirements (such as Omnibus Regulation) and satisfying the minimum requirement for investments in sustainable urban development. Further where no Managing Authority contribution is available, cities may still benefit from the MR UF level ESIF (and other leverage) through contributing its own resources.

- **Economies of scale**. The MR UF would be able to benefit from the use of standard procedures, template documents and appraisal tools, aligned to the MRA-RICE blueprint. These benefits can be passed on to potential local instruments, simplifying local implementation and allowing funds to be set up more quickly. A complementary technical assistance platform would also help facilitate these benefits.
- **Standards and best practice**. The MR UF will be placed to develop and promote best practice across its network of city funds. Technical assistance platforms such as *fi-compass* can be used to disseminate more widely the experience of the different financial instruments, building capacity within cities and supporting the development of new proposals in other cities.
- **Leverage effect**. The experience of the MRA-RICE partner cities highlights the challenges of attracting private investment at the city fund level. Although project level investment and emerging models such as the MEEF model can help mitigate the impact, there remains a challenge to use ESIF and other public resources to mobilise private finance in the sector. The MR UF potentially offers a solution to this problem. By aggregating investments across a range of project types and geographies, the MR UF can offer a more diversified portfolio of projects which may be more attractive to private investors than a single city fund.
- **State aid**. Although EU level funds must be consistent with the principles of State aid, they are not bound by the detailed compliance requirements that apply to funds under local management. This greater flexibility, which may be helpful to future city and urban funds, would only be available to those funds that will be set up directly by the MR UF.
- **Procurement**. Similar to the State aid position, the set-up of the City Fund directly by the MR UF would be undertaken in accordance with the principles of the EU Treaty rather than the more detailed requirements of the procurement regulations that apply to EU public authorities. This greater flexibility may be a significant benefit in relation to the implementation of some financial instruments.

Figure 16: Advantages of the Multi Region Urban Fund

4.3 Local implementation of the MR UF

The MRA RICE EU level fund model proposes two types of financial instrument that would be eligible for funding from the MR UF: the MRA-RICE Blueprint City Fund and a National/Regional Urban Fund. The MR UF would be complemented by technical assistance.

The MR UF could offer cities a package of technical assistance that would allow the city to:
- Undertake a study into the feasibility of a financial instrument for urban development
- Support priority projects in the development of "investment-ready proposals"
- Develop its internal capacity to set up and monitor financial instrument operations.

In all cases, the first step in setting up the fund would be a commitment from the MA or City of ESIF (or other) resources to the proposed City Fund. This would in most cases be funded through ERDF contributed by the relevant MA to the City, for example as part of the minimum 6% contribution of ERDF resources to sustainable urban development. However, where cities cannot access the ERDF funding from the MA they should also be able to contribute the local capital requirement from their own resources (possibly direct to the City Fund rather than at EU level).

It is anticipated that where cities have discretion as to how their ERDF allocation is utilised, a significant number will find the MRA RICE model an attractive proposition. Reasons for this would include the ease of set-up due to the established blueprint, its alignment with the MR UF and, as a result, the potential to secure significant additional investment to the fund from the EU level instrument.

Cities seeking to implement such a fund would establish **early contact with the MR UF** team and would **utilise the technical assistance available** to ensure the implementation was carried out in accordance with the MRA RICE blueprint and the applicable regulatory framework. By working alongside the MR UF the promoter city will ensure the potential for investment from the MR UF is achieved.

The MR UF would then invest in City/Urban funds through a facility (e.g. credit line) in accordance with the procedures of the institution managing the EU level instrument. At this stage it is too early to say the terms of the investment and how it would be combined at local level with other resources. It would be a matter for the European Commission to develop proposals reflecting the demand at the time.

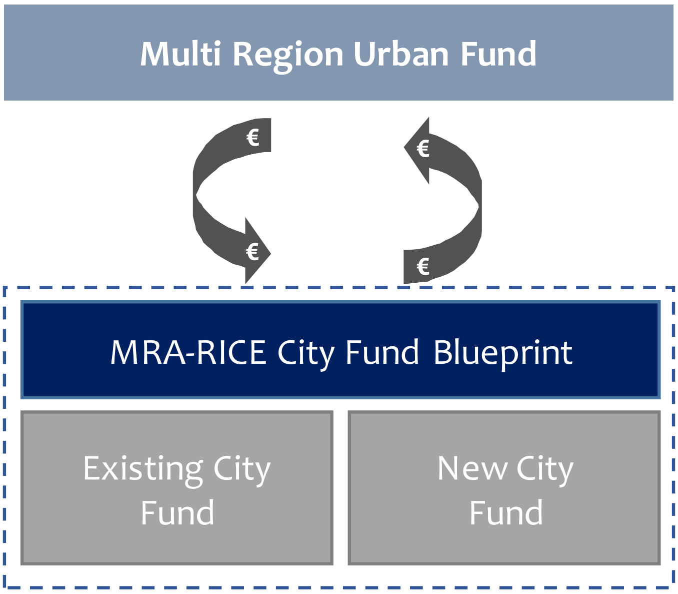
4.4 The Multi Region Urban Fund's investment in MRA-RICE blueprint city fund

The MRA-RICE blueprint city fund described at chapter 2 above would be a vehicle to enable the MR UF to invest into a city or municipal area. The partner cities have identified in the blueprint the key factors that allow a robust financial instrument to be established in the way that it would meet the likely requirement of a MR UF and its public and private investors.

The reliance on the MRA-RICE blueprint city fund as part of the MR UF model would provide assurance that the resources committed would be invested in projects that performed strongly both financially and in delivering the targets in the relevant ESIF operational programme. Critically, as well, the MRA-RICE blueprint would ensure that the projects supported would be aligned with the relevant city strategies, thus increasing the potential impact of the MR UF instrument.

It is proposed that the MR UF could invest in a City Fund in two ways.

Figure 17: MR UF investment into the City Fund



In both cases the investment, due diligence and selection processes will take place following the commitment of ESIF or other resources to the proposed City Fund by the city or its managing authority. It is anticipated that during the negotiation of these contributions, the preferred option would be identified from the following two options, presented in more detail in the subsections below.

4.4.1 The MR UF invests into an existing City Fund

Under this option an existing city fund would receive an investment from the MR UF. Where an existing fund for urban development would not be currently eligible due to non-compliance with the MRA-RICE blueprint the promoter (i.e. cities/MAs) would have to work with the fund and/or its IFM to adopt revised governance arrangements aligned to the blueprint if they wished to use this option.

It would be a requirement that, prior to investment in an existing fund, the MR UF would undertake due diligence to ascertain whether the requirements of the MRA-RICE blueprint are met as well as other critical considerations, including the robustness of the project pipeline, availability of co-investment and strength of existing portfolio.

4.4.2 The MR UF invests in a new fund established by the City

Under this model, a city would create a new financial instrument in accordance with the MRA-RICE blueprint to benefit from the investment of the MR UF. Again the investment by the MR UF would be subject to due diligence and a positive appraisal of the opportunity. It is likely that in many cases the work to establish the new fund would be undertaken in parallel and with the participation of the MR UF to ensure the smooth implementation of the operation.

The implementation of each option would be enabled by the inclusion in the new CPR of the provisions similar to those in the new Omnibus Regulation, in particular Art 39a, to support the MR UF. This would provide additional flexibility in terms of State aid and selection for the City funds established with the EU level MR UF. For example, where, the MR UF invests in the fund, the regulatory framework could adopt an approach based on the Omnibus Regulation which would allow the selection process to be undertaken in accordance with the implementing IFI's selection procedures, which may allow for a more streamlined selection process. Similarly, the State aid rules would not directly apply to the operation, allowing more flexibility in relation to the management of these issues.

4.5 The National/Regional Urban Fund

This fund would provide an **alternative mechanism for funding urban development** suitable for those cities in which it is not feasible to set up a MRA-RICE City Fund. In practice this will include many smaller cities and places which do not have the critical mass of projects and/or administrative capacity to directly support and engage with a City Fund.

A National/Regional Urban Fund led fund allows the skills and experience of National Promotional Banks and Institutions or other financial institutions to be harnessed through established intermediated lending practices to invest in urban development.

Although cities within the area of operation of a NPBI led National/Regional Fund would not be directly involved in the operation of the fund, the terms of the MR UF's investment would ensure the fund recognises the **importance of the policy framework for sustainable urban development**. As a result cities should be viewed as trusted partners in a National/Regional Fund and NPBIs should recognise the value of consultation and engagement with cities during the operation of the fund. Cities will also be able to play an important role in supporting priority projects through **technical assistance and planning/regulatory guidance**.

5 Technical assistance

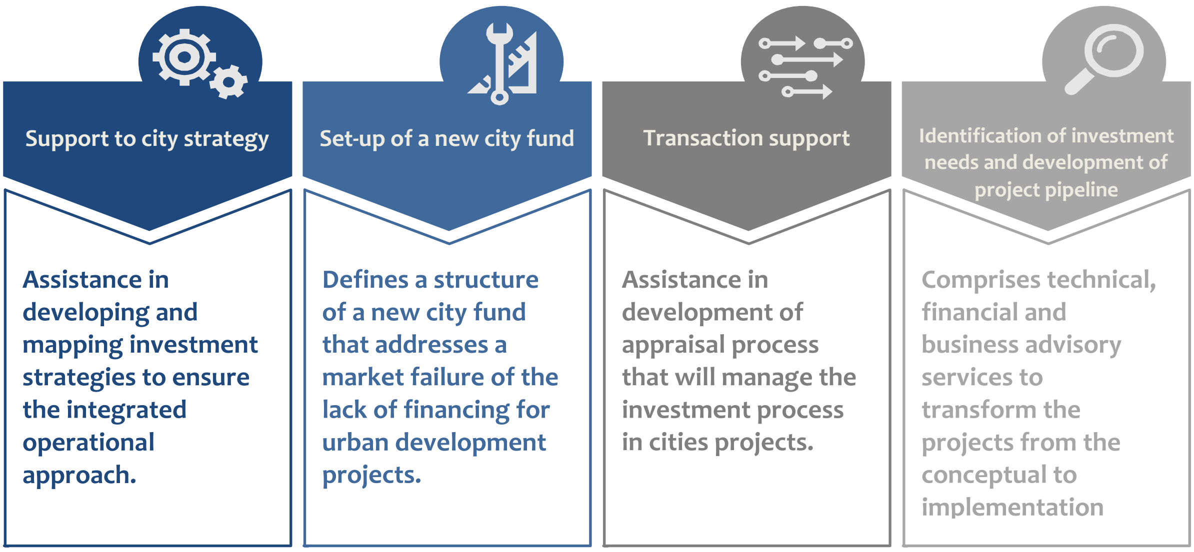
The objective of the technical assistance for the cities is **to facilitate the implementation of the city strategies into tangible urban development projects**. The transformation of a city's vision into reality is a multi-stage process, which starts with the development of urban strategy and continues until the provision of the financing to investment-ready projects. The scope of the technical assistance depends on specific urban context and should be tailored to the needs of each city, taking into account its urban development plans, internal capabilities and experience with financial instruments.

The analysis conducted in Phase 1 of this study indicated a number of technical assistance needs that are faced, to a different extent, by each of the partner cities. The identification of the common **technical assistance needs** provides basis for the mapping of **corresponding technical assistance services**. To reflect the process of transforming the city strategies into the implementation of urban projects, this chapter structures technical assistance services in three main blocks, which are supported by the transversal block to support identification of investment needs and development of project pipeline.

5.1 The technical assistance needs of the cities

The chart below illustrates the technical assistance needs of the cities against the corresponding stages of the process of transforming strategic vision into reality. The steps involved include: development and implementation of the city strategy (Block 1: Support to city strategy), support in establishment of a city fund (Block 2: Set up of a city fund), as well as transaction support (Block 3). Furthermore, the whole process is enriched by the transversal block, which facilitates identification of investment opportunities and development of the project pipeline (Block 4). The following sub-sections take a closer look at each of the stages presented on the figure below.

Figure 18: Technical assistance support to move cities from their visions to operationalisation



5.2 Block 1: Support implementation of the city strategy

The first block of the technical assistance services focuses on the implementation of the city strategy. The analysis conducted in the Phase 1 of this study indicates that **the need for technical assistance initially emerges at the stage of the development and implementation of urban strategies**.

Cities require **support in strategic planning** to most effectively and efficiently achieve key policy goals defined in urban development plans. Development of a master strategy, which consolidates sectoral strategies present at the level of specific departments of the city administration, facilitates identification of synergies and prevents omission of emerging sectors. The TA requirements can be divided into three main components: mapping and reviewing existing urban strategies, consolidation of the project pipeline, prioritisation and selection of projects.

5.2.1 Map and review existing sectoral strategies

In order to facilitate understanding of the links among the separate sectoral strategies and to obtain a consolidated overview of projects, **there is a need to review and map existing urban strategies**. This approach provides basis for an **integrated operational approach** across the departments, where individual units of the city cooperate together and coordinate their individual plans. Individual departments in the cities need to have a single point of reference mapping the separate strategies of different units, indicating the synergies among the plans and providing a holistic overview of the direction towards which the city is heading.

The sectoral approach and organisational split can also result in exclusion of emerging investment areas, such as digital economy or innovation, which do not fall directly under traditional sectoral breakdown.

5.2.2 Consolidation of project pipeline

The **mapping of the city strategies will capture both sectoral and integrated projects**. A comprehensive overview of projects across the city departments facilitates consolidation of a project pipeline and reduces the risk of omitting projects, which do not clearly fall under a single sector. Technical assistance can support the cities in identifying an approach to assemble projects into a single point of reference. A holistic overview of projects under consideration by different city departments accelerates identification of potential synergies, for example by combining separate projects, which could be implemented in an integrated form.

Technical assistance could facilitate the cooperation across the individual departments of the cities by supporting the design and implementation of an effective **communication system within the city's administration**.

This approach should leverage on a creation of the operational network among the departments of the cities, which works together on the development of integrated projects, thus **stepping away from the 'silo' approach** of the public administrations.

5.2.3 *Prioritisation and selection of projects*

The support in consolidation of the project pipeline needs to be complemented by assistance in undertaking prioritisation among projects. Technical assistance services can be deployed to **define comprehensive set of criteria** guiding prioritisation of projects once the project pipeline is consolidated. These criteria need to take into account both financial and non-financial variables, including potential joint benefits and objectives, as well as the match with available funding.

Urban administrations would also benefit from the technical assistance services targeted at final selection of projects, ensuring the relevance with the strategy of the city, attractiveness for investors and positive impact for citizens.

Portfolio of selected projects can be referred to internal technical assistance programmes for further development of business cases, financial engineering and tailored advice. For example, London has developed three internal technical assistance programmes aiming to facilitate the delivery of its energy efficiency strategy. These programmes serve as potential sources of projects that can be considered for inclusion in the project pipeline of the city fund.

How the technical assistance could help the City of London

For example, technical assistance services could support the City of London, with respect to the development of a tool to prioritise investments in London. This tool would enable the city to identify the impact of proposed developments on the wider local and national economy. Such a tool may be able to both guide investment decisions by cities and provide evidence to support business cases for funding from third parties including public and private investors.

5.2.4 *The URBIS technical assistance platform for urban development*

Among the technical assistance programmes at the European level accessible for the cities, URBIS[21] is an example of platform designed to provide a comprehensive advice in order to support the cities in transitioning from the stage of urban strategy to its implementation. Launched at the Urban Agenda's 2017 Conference in Rotterdam, URBIS is a specialist part of the European Investment Hub (EIAH). The EIAH was set up as part of the Investment Plan for Europe (the so-called "Juncker Plan") to meet the need for technical assistance within EU member states to develop investment ready projects and establish investment platforms to mobilise the EFSI resources made available under the plan as well as ESIF and other resources.

The development of URBIS within EIAH recognises both the potential within cities to drive sustainable growth within the EU in the future and the current need to build the capacity within cities to support and accelerate this work.

[21] http://eiah.eib.org/about/initiative-urbis.htm

Table 4: Example of European platform managed by the EIB to support urban development

Urban investment advisory platform managed by the European Investment Advisory Hub	
URBIS	URBIS is a dedicated urban investment advisory platform operating within the European Investment Advisory Hub (EIAH) and developed jointly by the European Commission (DG REGIO) and the EIB. URBIS aims to support city authorities with comprehensive advice addressing the urban investment planning, the financing needs of the projects, as well as integrated urban development programmes. Following its launch in November 2017, URBIS is in its pilot phase, during which it delivers services evolving around three main modules: raising awareness of the existing instruments, providing tailor-made technical and financial advice to the cities and exploring innovative financing approaches to boost urban investments. With respect to the tailor made advice: • **At the level of strategic planning**: cities can request support already at the level of prioritisation and optimisation of investment programmes and to evaluate whether the project pipeline reflects the objectives set out in the urban development strategies. • **At the level of projects' development**: URBIS can help with enhancing the bankability of the projects by strengthening credit quality, assist with financial and economic analysis, demand analysis, as well as with the quality review of documentation. • **At the level of obtaining financing**: cities can seek advice regarding the possibility of potential co-financing with EIB funding, support in addressing financing needs, through financial structuring, as well as assistance in undertaking feasibility studies for investment platforms and other financing facilities.

5.3 Block 2: Development of a new MRA-RICE blueprint city fund

The second block considers the scope for technical assistance in the establishment of the new financial instrument. **The role of the city in the process of establishing a city fund is of a critical importance.**

Cities need to develop internal capability to establish and implement financial instruments.
The city needs to facilitate the transformation of complex projects into tangible outputs by stepping into the funding model and deploying public money through city funds.

Technical assistance can guide the institutional capability building to accelerate the switch from grants to revolving financial instruments, such as a MRA-RICE blueprint city fund. In this context, public administrations need to consider factors, such as the development of the investment strategy, potential co-investors and the selection of an appropriately skilled IFM. They will also need to build up a solid understanding of matters like State aid requirements with respect to financial instruments.

Technical assistance can support the cities in assessing whether there is any mismatch between the financing requirements of the projects and existing financing supply in specific sectors, by supporting internal investment teams to undertake ex-ante assessments. Ex-ante assessment enables verification of the **existence of market failure**, **suboptimal investment situations** and identification of the **scope of investment needs.**

Technical assistance can help the cities in addressing the challenges of the **internal capability and experience** required at the moment of establishment of a city fund. The cities can benefit from technical assistance in building the internal capacity within the city's investment team or a dedicated city unit. This can be achieved by **design of internal Technical assistance programmes** tailored to the urban context and investment needs of a particular city, which effectively leads to increased capabilities of the city administrations.

The experience of the MRA-RICE partner cities is that the **role of a dedicated city unit** is of particular importance in the beginning of the process of establishing the city fund, when the public authority needs to **formulate an investment strategy**, decide on the most suitable **legal structure of the financial instrument** and **lead the tender procedure for the procurement of an IFM**. For instance, among the partner cities, London, Manchester and The Hague have all established specialised teams, which are dedicated to the supervision and management of the city funds. This has been replicated in Milan whose first step to implement a city fund has been to establish a small team with expertise in ESIF and financial instruments.

How the technical assistance could help the City of Milan?

Technical assistance services within the scope of the development of new financial instrument could support the City of Milan in undertaking a feasibility study for financial instruments. This could look into two particular sectors where the market is unable to meet the demand within the city: Energy Efficiency and the redevelopment of local markets. The feasibility study provides the city with important evidence to support the development of a business case to support the potential future investment by the city of its own funds.

Table 5: Example of European platform managed by the EIB to support implementation of financial instruments

Horizontal platform supporting the design and operation of ESIF financial instruments	
fi-compass	The importance of a horizontal platform to raise awareness of the potential of financial instruments, share best practice and act as a single repository for guidance and other materials has been demonstrated in the current programming period. The *fi-compass* platform[22] is delivered by the European Commission in partnership with the EIB. It was established in 2014 to provide support to managing authorities and their partners in relation to the set up and operation of ESIF financial instruments. Since it was established *fi-compass* has developed a range of products to support its target stakeholders. These include the development of case studies and methodological guidance; events aimed to raise awareness of FIs and training for practitioners; and a range of digital content including videos, webinars and social media channels. In particular the *fi-compass* website is recognised by practitioners as being a valuable single source of up to date

[22] https://www.fi-compass.eu/

information on financial instruments, hosting relevant European Commission regulations and guidance, the *fi-compass* materials and links to other key sources of information.

It is proposed that in the future, the platform would, as a part of its offering to stakeholders, continue to develop specialist materials, events and other products to support the implementation of financial instruments to support sustainable urban development. This would play an important role in supporting interested cities in accessing the necessary know-how and resources to engage with the EU Level Multi-Region UDF.

5.4 Block 3: Transaction support

The cities need to ensure the projects are mature enough to move to the implementation phase. The **investment readiness of projects** within the pipeline increases the chances of attracting investors and successfully implementing the projects. Therefore, cities need to develop a pipeline of investment-ready business cases underpinned with reliable financial assumptions and supported by relevant financial analysis.

The technical and financial feasibility studies to assess the investment readiness of the projects. Cities need assistance in developing relevant internal capability. They can act as facilitators and redirect the project promoters to the relevant programmes (e.g. internal or outsourced to experts).

In order to support the orchestration of projects as well as support the management of project pipeline, the city needs help in preparing projects to reach the execution stage. Therefore, the support should cover:

- Development of business strategy and feasibility (portfolio alignment), as well as the assessment of risks, benefits and cash-flows (operation and evaluation);
- Development of procedures for contracting, bid strategy or tax structuring (procurement).

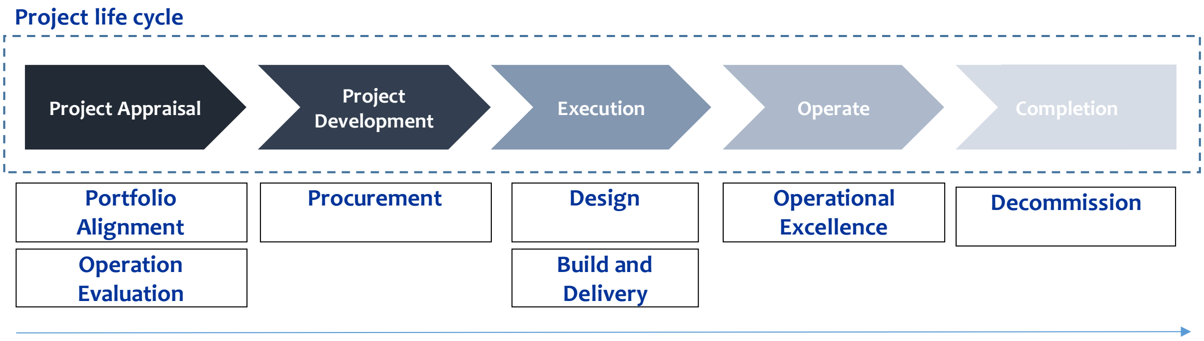
Developing good practice and the operational project planning

Technical assistance can support cities in **developing the good practices and the operational project planning** at the city level in order to manage the development and monitoring of business cases.

The project lifecycle can be described in five stages (as illustrated below), which can be divided in three groups of activities:

- The first and second stage: *project appraisal* and *project development* conducted in order to prepare project for the implementation.
- The third stage: *execution* linked with launching the project.
- The final two stages: *operationalisation* and *completion* associated with monitoring

Figure 19: Management of the project



Technical assistance could support the cities in developing local programmes focusing on relevant capability building of the city administrations' officers.

Table 6: Internal Technical assistance programmes managed by the Greater London Authority

Example of internal technical assistance programmes developed by the Greater London Authority	
RE:FIT	RE:FIT[23] is the Mayor of London's energy efficiency programme developed to facilitate the **retrofit of non-domestic public sector buildings**. The programme was designed to overcome the main barriers, which hindered successful implementation of projects by helping public sector organisations in implementation of energy efficiency projects. RE:FIT provides project management support to identify projects and start their operations, as well as gain access to relevant training and assistance in securing financing. In a response to a complex procurement procedure RE:FIT came forward with a list of retrofitting contractors, which operate through the RE:FIT framework. **Beneficiaries of the programme include public sector organisations** such as local government, schools, hospitals and museums, to name just a few. The programme is now in its second generation and since the commencement of the pilot phase in 2009 it has successfully conducted retrofitting projects in over 550 buildings, achieved annual saving costs for public sector of GBP 7.1 m and saves 30,000 tonnes of CO_2 each year.[24] RE:FIT is funded by the Greater London Authority and the ERDF via ELENA (European Local Energy Assistance).
RE:NEW	RE:NEW is the Mayor of London's energy efficiency programme supporting **public sector organisations in procuring** energy reduction measures. These measures refer to the public entities' own stock and **support a range of domestic retrofit projects**, free of charge. Since its operations in 2009, RE:NEW has improved energy efficiency of approximately 127,500 homes, achieving 46,000 tonnes of CO_2 reduction annually.[25] The programme's support team provides assistance in all types of energy efficiency measures, as well as with the development of sound business cases and support in securing the financing. Similarly to RE:FIT, RE:NEW has been co-financed by ELENA.

[23] For more information on REFIT please refer to: https://www.london.gov.uk/what-we-do/environment/energy/energy-buildings/refit/what-refit-london#acc-i-52669

[24] 'What has RE:FIT London achieved so far?' by Greater London Authority. Available at: https://www.london.gov.uk/sites/default/files/achievments.pdf

[25] 'A simple guide to funding and financing of RE:NEWin London' by Greater London Authority. January 2017. Available at: https://www.london.gov.uk/sites/default/files/re_new_funding_guide.pdf

DEEP	Decentralised Energy Enabling Projects (DEEP)[26] has been set up to support larger-scale decentralised energy (DE) projects in London, which are not supplied by the market. DEEP provides assistance by undertaking procurement of technical, financial and legal advisory support services to help public beneficiaries in implementation of larger-scale DE projects at market-competitive prices and effectively reduce CO_2 emissions at market-competitive prices. The project provides financing for DE projects starting from early stage heat mapping, through feasibility studies, business case development, procurement and finally commercialisation. DEEP is funded jointly by the Greater London Authority and the ERDF.

5.5 Block 4: Identification of investment needs and project development

Operationalisation of urban strategies involves the need for development of a pipeline of projects, which, on one hand, will bring the policy goals closer to the realisation and, on the other, will be attractive for investors.

5.5.1 Project pipeline

Technical assistance can support the cities in identifying the needs as well as consolidating, prioritising and optimising the project pipeline. The cities need to be in position to prepare a pipeline of projects, despite the internal splits in organisational structure. Bringing the most strategic and investment-ready projects together helps to achieve scale effects and increases the chances of attracting private sector investors. Therefore, the **project pipeline of a substantial size is critical to mobilise financing and boost financing for integrated investment plans.**

Internal capabilities are needed to effectively short-list and prioritise most strategic projects. Cities need assistance in defining a set of eligibility criteria that take into account both financial and non-financial variables to pre-select projects based on their relevance to the urban strategy.

Following the consolidation of the project pipeline, selection of most relevant projects and prioritisation of the most strategic ones, technical assistance services support **evolution of prioritised ideas into investment-ready opportunities**. Support in the development of projects is provided directly **to project developers,** with objective of enhancing their financial and technical readiness.

Transformation of projects into investment-ready

Business cases development	Financial engineering	Technical readiness	Legal and regulatory advice

[26] For more information in DEEP please refer to: https://www.london.gov.uk/what-we-do/environment/energy/energy-supply

5.5.2 *Development of business cases and financial advice*

The transformation of projects' ideas into tangible outputs is subject to investors' confidence in their future success. Projects are ready for financing only once their business cases are mature and underpinned by reliable financial assumptions.

How the technical assistance could help the City of the Hague?

For example, in terms of transformation of projects into investment-ready, the technical assistance could support the City of Hague in development of a business case for a PPP project for geothermal energy. The project would be the first of several similar schemes that would require support from a City Fund being established by the City

Technical assistance supports development of **solid business cases** by providing assistance in setting-up **initial financial assumptions** underpinning the projects, identifying **key risks** and undertaking sector specific **market assessment**. The **strengthening of financial analysis** includes technical assistance services to carry out **financial feasibility studies** for the projects. For example, for the projects to become investment-ready opportunities, there is a need for provision of a **clear breakdown of investment expenditures and operational costs**, as well as **identification of reliable revenue streams**. The financial assumptions underpinning the business cases of projects need to be reliable and verifiable.

Once the business cases and underpinning financial assumptions are developed, the technical assistance services **support projects' financial engineering**, i.e. assess the risk profiles of investments and identify, which financial products are most suitable for the project's financing needs.

5.5.3 *Strengthening of technical readiness and legal advice*

Apart from the financial readiness, projects need to prove their maturity also in terms of non-financial aspects. These relate to **project specific technical readiness** directly linked to the sector of the project. Technical assistance with this respect supports project developers in undertaking **environmental impact assessment**, defining **technical specifications** or providing sector specific implementation advice.

How the technical assistance could help the City of Manchester?

The City of Manchester could be supported by tailored technical assistance services with respect to the ecosystem mapping and development of a business case for a blue/green infrastructure project. Mapping the current natural assets within a city are a key first step in the development of a sustainable infrastructure plan based on Nature Based Solutions. The development of the business case has highlighted how a long term patient equity type product deployed through a City Fund may be financially sustainable in the long term.

Legal and regulatory advice tailored to the context of the jurisdiction and sector, in which the projects operate is also an area, which can be supported by technical assistance.

For example, in case of integrated projects technical assistance can **provide advice on** the most adequate and beneficial **legal structure** for projects' organisational set-up. In a number of cases, projects will require assistance in preparation for tendering procedures, grant applications, as well as contractual arrangements.

The table below provides an overview of the technical assistance programmes managed jointly by the European Commission and the EIB, which provide advisory support for project development in energy efficiency and infrastructure sectors.

Table 7: Example of existing European instruments for technical assistance

Technical assistance Programmes managed by the European Commission and the EIB	
ELENA	European Local Energy Assistance (ELENA)[27] is an initiative led jointly by the European Commission under the Horizon 2020 and the EIB. ELENA provides technical assistance to projects in energy efficiency and sustainable transport, more specifically for implementation of energy efficiency, distributed renewable energy and urban transport projects. The objective is to prepare bankable investment projects able to attract private sector financing. Projects supported by ELENA need to amount to at least EUR 30 m. Implementation period of eligible projects varies from 3 to 4 years for projects in energy efficiency and urban transport, respectively. Smaller projects can be eligible for support if they are integrated into larger programmes, in order to meet the size criteria of the programme. ELENA can cover up to 90 per cent of technical assistance development costs.

[27] For more information on ELENA, please refer to: http://www.eib.org/products/advising/elena/index.htm

6 Conclusions

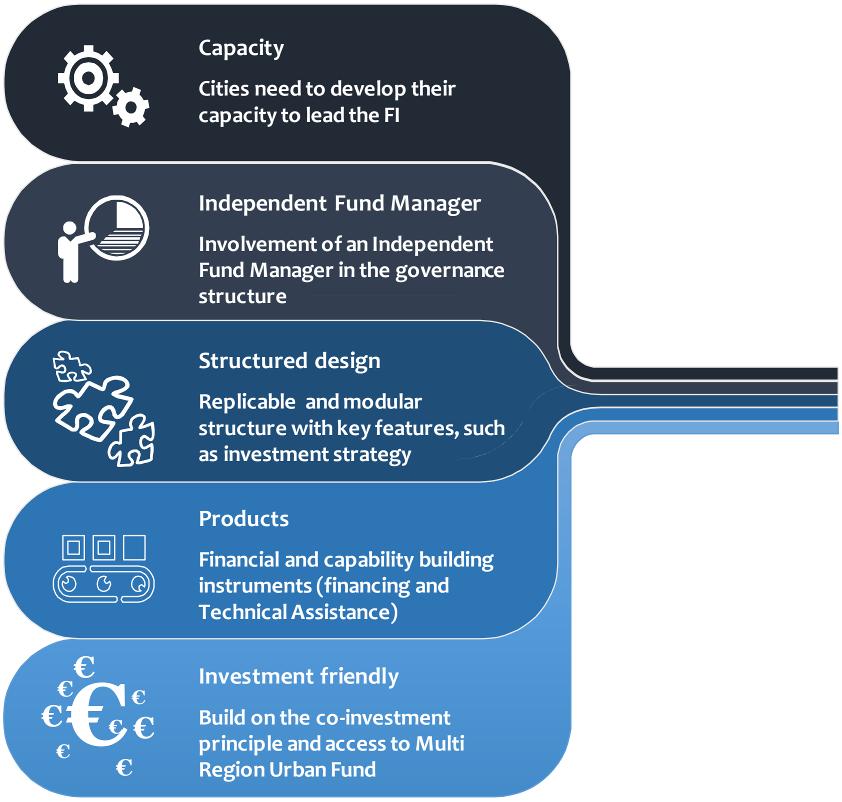
Based on the assessment of financial needs of partner cities, this report describes the blueprint of a city fund and the creation of a new EU wide financial instrument to fulfil the market failure. Finally, in order to address the existing technical assistance needs, the four block approach is proposed to reflect the process of transforming the city strategies into the implementation of urban projects.

The design of a new city fund is a critical driver for implementation of the city strategy if the market failure is observed. Each of the partner cities faces this challenge and usually has developed the experience with financial instrument. Therefore, in order to leverage on best practices, the case study for each of them is developed to create the baseline for the further analysis.

6.1 MRA-RICE blueprint city fund

The proposed MRA-RICE blueprint city fund brings a flexible framework that can be applied by cities aiming to set-up a new financial instrument. The figure below puts together the main features that have been discussed in this report.

Figure 20: Main features of the blueprint of the city fund



This MRA-RICE blueprint highlights all key aspects that should be taken into consideration when setting-up a new city fund, including the following aspects:

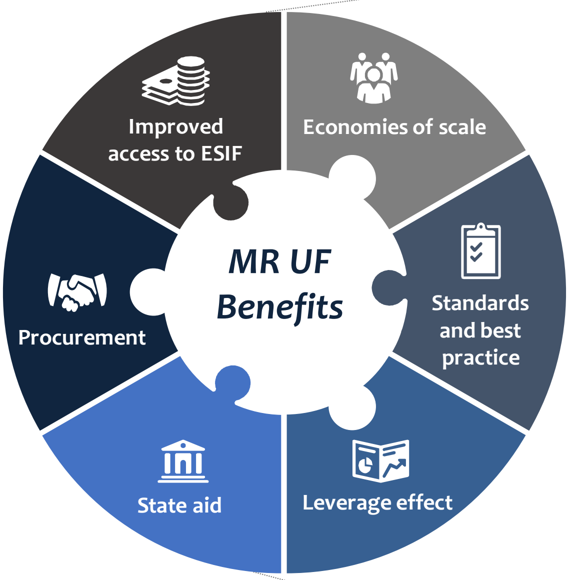
- City **capacity** that gives a city a critical role of being a key sponsor of the whole initiative when establishing a city fund as well as creating a local team, whose experts have a knowledge and experience in both fund financing and urban development.
- Presence of an **independent Fund Manager** that enables city to split between political and investment decisions, and to build a trust among investors, who financially contribute to the city fund, or directly in projects, focusing on the fund performance.
- **Structured design** that follows best practice observed among MRA-RICE partner cities to produce a replicable structure that provides a balance between the professional, independent fund management and investment decision-making within the fund and the strategic oversight and monitoring by the City of instrument.
- Access to financial and capacity building instruments that facilitate the realisation of the city investment strategy providing **funding and Technical Assistance** to urban projects that fall under the investment strategy of the city.
- Combining **public and private funds** through involvement of public resources that attracts private investors, who otherwise would not invest due to the high risk profiles of investments or long-investment horizon.

A MRA RICE City Fund, which is designed following these principles, is developed with the purpose of achieving a significant leverage effect of the public investment and mobilise investment to support a city's integrated urban development strategy.

6.2 The EU-level Multi Region City Fund

The development of the MRA-RICE blueprint city fund provides a framework for the development of an EU level Multi Region Urban Fund that could significantly accelerate the adoption of ESIF financial instruments to support urban development in the future.

Figure 21: The benefits of the Multi Region Urban Fund



Improved access to ESIF: MR UF will offer an alternative and additional access to ESIF, particularly beneficial for the cities with constrained access to ESIF via Managing Authorities

Economies of scale: standard procedures and appraisal tools associated with the MR UF will simplify local implementation allowing funds to be set up more quickly

Standards and best practice: MR UF will facilitate the development and sharing of the best practice across the network of the city funds

Leverage effect: aggregation of investments across the range of project types and geographies will enable the MR UF to offer 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 due to less complex compliance rules

Procurement: similar to State aid position, conducting procurement with the MF UF could result in greater flexibility, thus facilitating implementation of financial instrument

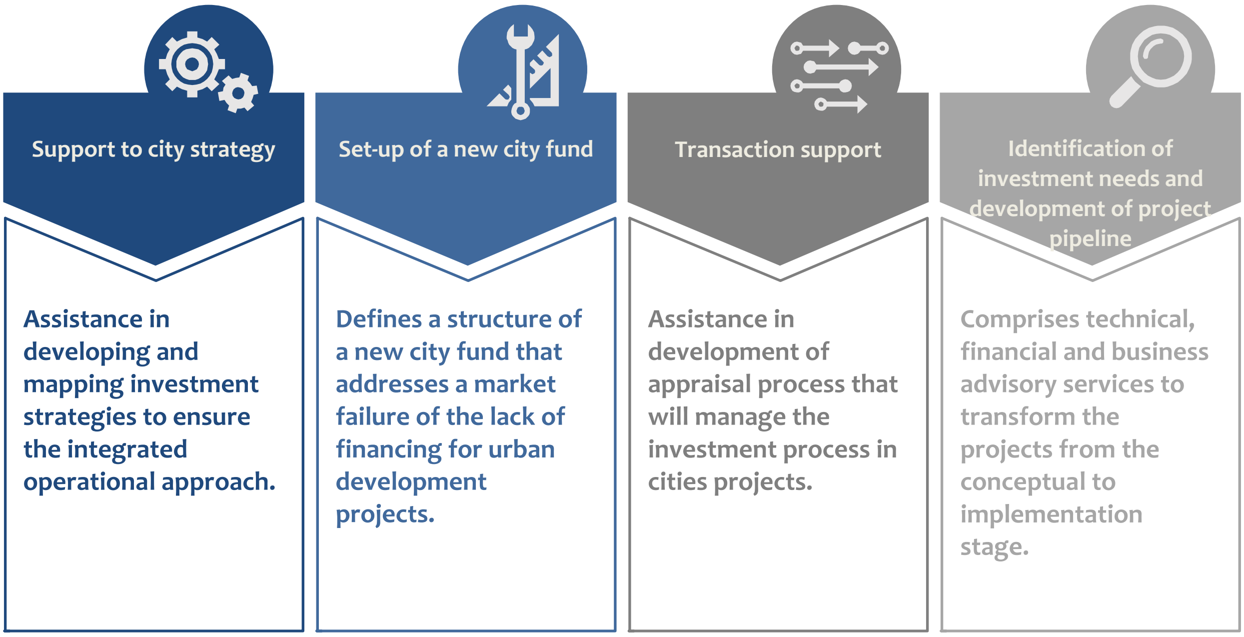
The implementation of the MR UF would be facilitated by the MRA-RICE blueprint which would provide a clear framework for cities to adopt in order to access the funding available through the MR UF. At the same time the MR UF would provide cities with access to ESIF held at EU level and, potentially significant leverage by using the ESIF to crowd in EFSI, EIB and/or private investors at the EU fund level that can subsequently be deployed to city funds, subject to a local ESIF or other commitment being made.

Extending the MR UF to national and regional urban development funds that would be managed by National Promotional Banks and Institutions would enable the benefit of the EU level fund to be extended to smaller cities who do not have the capacity to develop their own MRA-RICE blueprint city fund.

6.3 Technical assistance

In order to support the roll out of the MRA-RICE blueprint the technical assistance already available to cities to support the development of financial instruments should be extended and orientated to support the delivery of the MRA-RICE blueprint city fund and the EU level Multi Region Urban Fund.

Cities still have diversified needs for technical assistance. This report identifies the four block approach to support cities in the process of transforming from the vision stage into realisation stage.



In order to facilitate the smooth development and provision of TA services, cities should take care of creating the internal capacity through recruiting and retaining members of staff with the right expertise. MRA-RICE partner cities have proven that the strong internal teams dedicated to the city investments managed to support city in achieving its strategic objectives.