



Assignment 29: Strategic UDF Investing and Project Structuring

Final Report

9 December 2013

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Assignment 29 – Strategic UDF Investing and Project Structuring

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1. INTRODUCTION & BACKGROUND

On 15th March 2013, the Mazars Consortium was appointed to carry out the 29th Assignment issued under the European Investment Bank's (EIB) Framework Agreement for services to be provided within the context of the JESSICA initiative, titled "Strategic UDF Investing and Project Structuring" (herewithin: "the Assignment"). For this assignment, Mazars worked closely with University of College London's (UCL) QASER Lab in order to draw upon expertise in the fields of urban economics, finance, applied mathematics, statistics, urban regeneration, and computational modelling.

1.1 Assignment Objectives and Scope

The broad objective of the Assignment as set out in the ToR is "to provide stakeholders with an enhanced knowledge base and a suitable framework/guidance to accelerate and improve the quality of their strategic investing in urban development and regeneration." The Assignment was commissioned because it was felt that additional tools and guidance were needed for Managing Authorities, in particular to assist with the speedy establishment and implementation of Financial Instruments in the next Programming Period. In the 2007-2013 Programming Period, there were some delays in establishing Financial Instruments due to their 'newness' Financial Instruments, the lack of framework for strategic investment and project structuring, and the poor pipeline development of 'investment-ready' projects.

The Assignment aimed to capitalise on the knowledge base of JESSICA Evaluation and Horizontal Studies, JESSICA Networking Platforms/Conferences, and the know-how developed during the 2007-2013 Programming Period to develop a set of practical tools to support stakeholders to:

- improve the strategic fit and investment-readiness of existing project portfolios and pipelines through strategic investing and project structuring;
- facilitate the transition of the existing Financial Instruments for urban renewal and regeneration and their project portfolios / pipelines into the 2014-2020 Programming Period;
- meet more effectively the requirements for strategic investing of European Structural and Investment Funds (ESIF) in 2014-2020 through Financial Instruments for various thematic areas where possible;
 - at the **integrated plan level**, where plan structures often do not properly incorporate revolving components into coherent investing strategies, blending revolving funds and traditional grant instruments;
 - at the level of the **project portfolio** targeted by the Financial Instruments, in cases where the strategic framework does not facilitate the building of robust portfolios that can benefit from the appropriately combining payback period, financial profitability, risk features etc.;
 - at the **project design / structuring level**, in cases where candidate projects do not take into account the potential to configure project components in ways that allow revenue generation and/or the use of revolving mechanisms.
- facilitate the acceleration of the implementation process from the preparation, negotiation and approval of the 2014-2020 Operational Programme(s) contributing to the Financial Instrument(s) to identifying and structuring high-quality project portfolios and project investing via a Financial Instrument.

1.2 Background of Financial Instruments

Whilst Financial Instruments using Structural Funds have been used in making investments for Structural Funds since the 1994-1999 programming period primarily to support SME access to finance, however Financial Instruments gained relative importance in the 2007-2013 Programming Period which now represents approximately 5% of the total European Regional Development Funds (ERDF) contribution across Europe. The value-added of Financial Instruments has been acknowledged as a resource-efficient way of using European Structural and Investment Funds (ESIF)¹ to make strategic investments. The ‘revolving’ nature of Financial Instruments enables Managing Authorities to make multiple investments into future projects using the same pot of monies. Furthermore, using Financial Instruments can also leverage additional public and/or private co-investments at the project or fund levels to address market failures.

In the light of the current economic situation and the increasing scarcity of public resources, the European Commission’s proposals for Cohesion Policy for the Programming Period 2014-2020 envisage an increase in the use of Financial Instruments across all Thematic Objectives to support in delivery of the EU 2020 objectives of *smart, sustainable, and inclusive growth*.

To encourage and increase the use of Financial Instruments for the 2014-2020 Programming Period, the European Commission’s proposals include:

- Wider scope to include all five ESIF as well as all Thematic Objectives where there is demonstrated market failure;
- Offer greater flexibility to Member States and regions in terms of target sectors and implementation options, including: a) Financial Instruments set-up at the EU level and managed by the Commission; b) Financial Instruments set-up at the national/regional level using tailor-made or ‘off-the-shelf’ instruments; and c) Financial Instrument consisting of loans or guarantees implemented directly by Managing Authorities;
- Provide a stable implementation framework and rules on monitoring and reporting of Financial Instruments; and
- Capture complementarity activities between Financial Instruments and other forms of support, such as traditional grant financing

¹ As a reminder, the five ESIF funds include: European Regional Development Fund, Cohesion Fund, European Social Fund, European Agricultural Fund for Rural Development and The European Maritime and Fisheries Fund.

2. DELIVERABLES

To help accelerate the deployment of Financial Instruments over the Programming Period 2014-2020, the Project Team developed a number of deliverables as part of the Assignment. Some of these would be readily able to be used by Managing Authorities, others were concepts or prototypes that the EIB and/or the European Commission could use to develop more sophisticated tools for Managing Authorities to use at a later date. The deliverables are the following:

- A **Financial Instrument Guide: An Overview for Setting Up and Implementing Financial Instruments:** a high-level overview ‘guide’ for use by Managing Authorities to help understand the key steps involved in establishing and implementing Financial Instruments.
- A **Library Prototype:** to provide a library prototype of a document library to enable easy navigable access by Managing Authorities and other Financial Instrument stakeholders to access key information contained in various Evaluation and Horizontal Studies already published in the public domain.
- A **Financial Modelling Tool:** an excel tool for Managing Authorities to help them to understand how strategic investment decisions could be made, and how to structure individual projects and combine projects within a portfolio.
- A **Portfolio Structuring Concept:** to provide a concept for strategic investing by investment managers incorporating both economic and financial considerations.

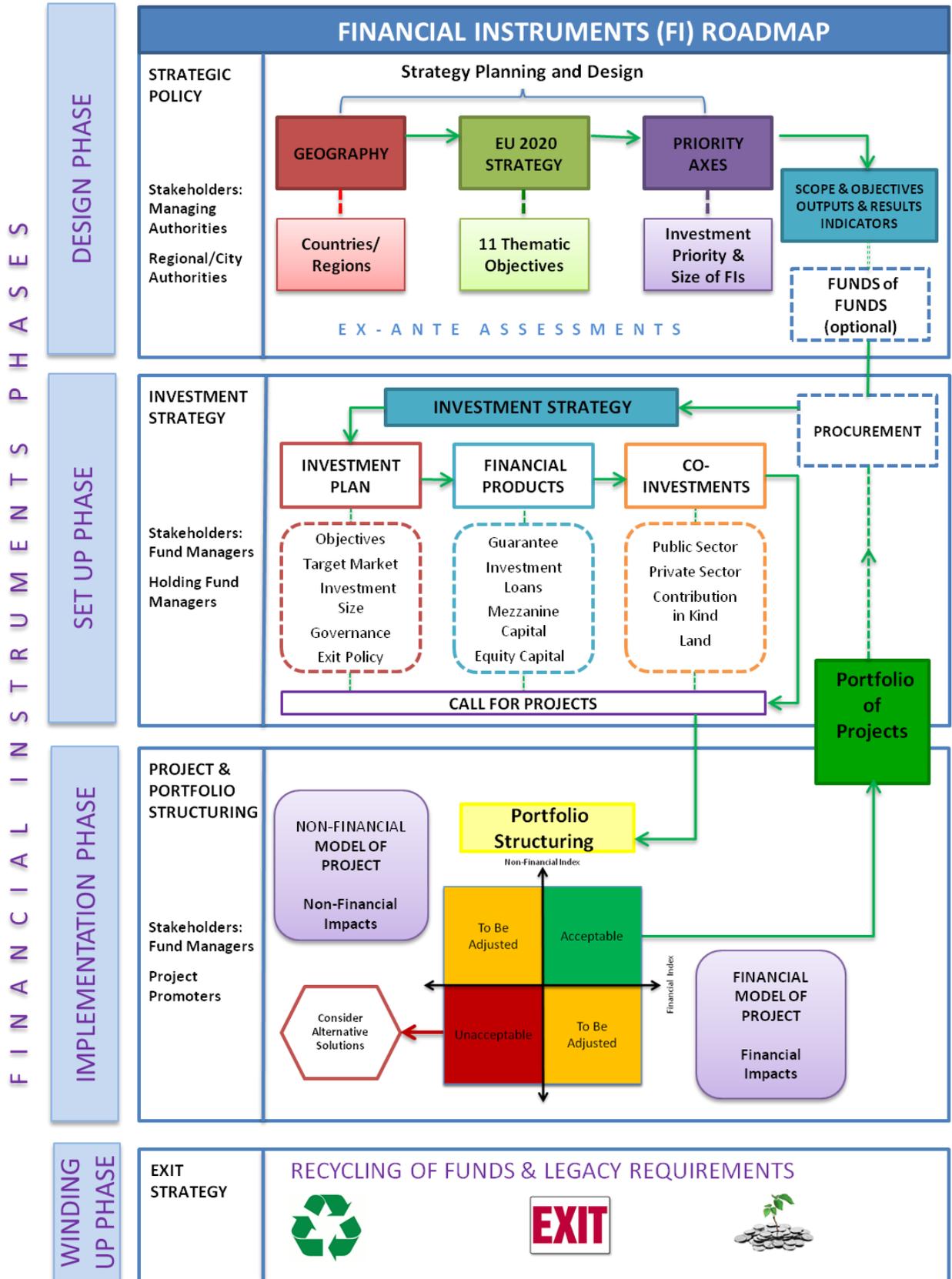
The latter three deliverables were subject to testing with Financial Instrument stakeholders. 18 individuals drawn from Managing Authorities, UDFs and JESSICA Investment Boards were approached by the Municipal and Regional Unit and invited to take part in piloting/testing of the deliverables in September 2013. 11 of these agreed to take part and were sent the materials. Feedback was received from XX. In general, there was interest from both those that had provided feedback and those had shown interest to be involved in future testing and development activities.

2.1 Financial Instruments Guide

Background: In line with the ToRs, a Financial Instruments Roadmap was produced as part of Task 1 originally referred to be the EIB as the “Strategic Workflow Model” in the Terms of Reference (see Figure 1). The Financial Instruments Roadmap is designed to set out a conceptual model/framework to enable stakeholders to understand high-level decision-making required for Financial Instrument establishment and implementation relating to policy and investments. The multi-level and multi-layered framework set out in the Financial Instruments Roadmap provides an overview of the process of establishing and implementing Financial Instruments to allow strategic investments that achieve a broad range of non-financial impacts, including tackling market failures and sub-optimal investment situations. In addition, the Financial Instruments Roadmap seeks to provide framework and guidance on meeting basic financial viability criteria and also leverage private and public sector co-investments. Please note that the Financial Instrument Roadmap was produced as the initial framework for to guide the development of subsequent tools/deliverables.

To accompany the Financial Instruments Roadmap, the **Financial Instruments Guide** was developed as an over-arching overview guide to assist Managing Authorities and other stakeholders on establishing and implementing up Financial Instruments in line with the steps set out in the Financial Instruments Roadmap (see Figure 1).

Figure 1: Financial Instruments Roadmap



2.2 Library Prototype (Software Model, User Manual and Administrator Manual)

Background: Currently, the 50+ horizontal and evaluation studies are hosted on the EIB website and categorised by “Evaluation Studies” (listed by countries) and “Horizontal Studies” (<http://www.eib.org/products/jessica/studies/index.htm>). The way the evaluation studies are categorised makes it difficult to find exact information. For example, if stakeholders wish to only examine energy-related projects, then they would need to download evaluation studies that they think are relevant based on the title of the report, and shift through the report for the relevant chapters. This can be time-consuming in light that there are over five dozen reports available. The following drawbacks were observed when reviewing the EIB website:

- The information available on-line (EIB and DG-Regio websites) is not categorized through a well-articulated structure, but rather is simply classified by type of study (e.g. Evaluation vs Horizontal Study) and by country.
- The user encounters significant difficulties in using the available data to develop a clear understanding and compare existing applications of Financial Instruments.
- Significant hard and soft data on projects and investment is available in the documents, but it is generally difficult to extract. For example, when the user wants to carry out a benchmarking exercise based on project information (i.e. ranking, priorities, key words, etc.).
- The search for information is unstructured (e.g. typology of projects, regions/cities, types of Financial Instruments, etc.) and does not readily support stakeholders in the definition of new projects or new Financial Instruments.

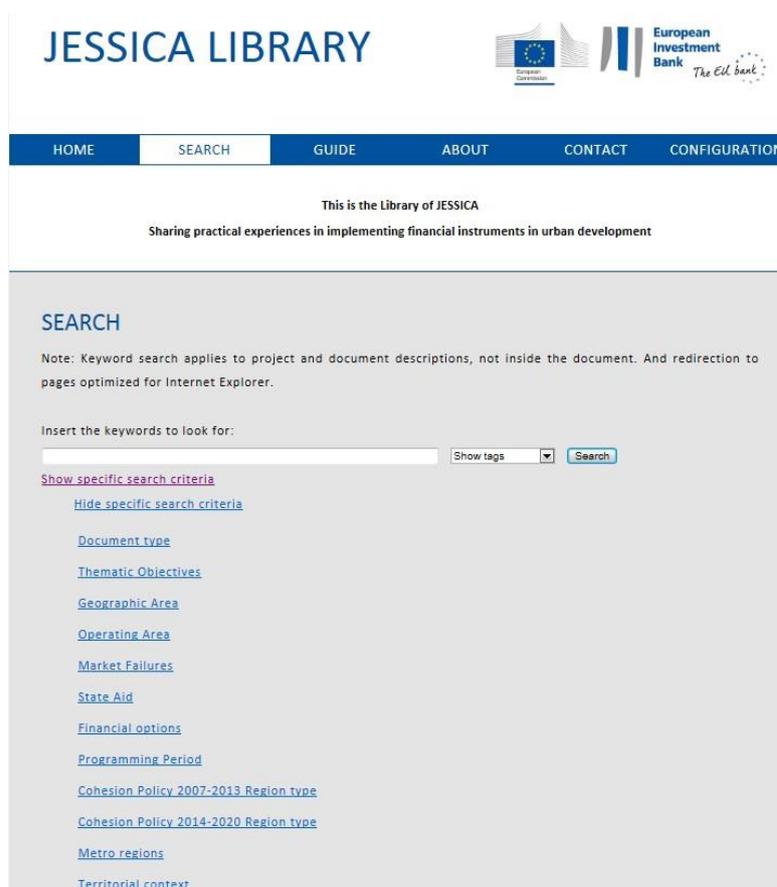
Nonetheless, the body of knowledge and practical information was considered invaluable for designing and implementing future Financial Instruments, and should therefore be use as a basis for knowledge-sharing. Therefore, the Library Prototype was developed as a knowledge database of all evaluation studies and horizontal reports produced to date under the JESSICA initiative to allow stakeholders to systematic search for relevant information. The core element of the Library is comprised of project case studies contained within various evaluation studies.

Upon reviewing the 50+ evaluation studies for key themes, the Project Team proposed an organisational structure which would enable each study to be categorised, and subsequently searched for using key words. Working in collaboration with the EIB, several rounds of iteration were proposed on the structure of the Library Prototype. Subsequently, a dozen studies were uploaded to the Library Prototype to illustrate its capability as a knowledge database.

To support the EIB on the operational side including updating and managing the Library Prototype, a full administrator manual was developed and subsequent consultations with the EIB on the transition to a fully operational library has been on-going throughout the duration of this study. Additionally, an end user guide was also produced, however, it should be noted that the final “end user” version will most likely be visually different, however the structure will be preserved. A new End User Guide will need to be produced in due course as and when the Library is fully operational.

In summary, the Library Prototype capitalizes on the existing knowledge base from the JESSICA Evaluation and Horizontal Studies. The primary aim of the Library Prototype is to provide stakeholders with a searchable database to find relevant information on Financial Instruments. As such, the Library was constructed to enable stakeholders to search for information using the open “key word” search functionality as well as pre-defined categories of the “show specific search criteria.”

Figure 2: The JESSICA Library Prototype Interface



The Library Prototype is now available to the public at <http://www.eib.org/jessicaLibrary>.

Feedback: A small number of external colleagues ranging from fund managers to Managing Authorities were invited to provide feedback on the Library Prototype. Their feedback has been collated in the following table:

Table 1: Feedback on the Library Prototype on its usefulness

Managing Authority	<p><i>“The library has a clear and user-friendly interface (we suggest to consider a graphic layout improvement to make it more pleasant). The search criteria are both rich and well defined and the possibility of combining more criteria and filters is very useful.</i></p> <p><i>In general terms yes, [the Library Prototype would be useful to other stakeholders]. To provide a more detailed answer it is important to define the different typologies of stakeholders. In the case of public authorities the tool is useful.”</i></p>
Fund Manager	<p><i>“As a knowledge management tool, the Prototype Library is very useful for JESSICA stakeholders. The search options are straightforward and easy to perform. The “headline” categories are useful in narrowing the search and the sub-categories under the “Operational Area” category cover the majority of cases we can think of.</i></p> <p><i>The Prototype Library will become more useful to FI stakeholders as it gets populated with new and interesting content that assists them in their work with FI. It has very good functionality, but the most important feature is to have useful content, including, for example, case studies, possibly sanitized, of actual JESSICA projects, currently being implemented by UDFs.”</i></p>
JESSICA Holding Fund	<p><i>“Regarding the <u>library</u> (which I do find very useful) - I think it will be useful if information on the FRR the approved projects is also included, as most of the projects we work on have no or limited analogues, which makes benchmarking very difficult; so information on FRRs under potentially similar projects, even in a different country, might be of help.”</i></p>

2.3 Financial Modelling Tool (Excel Model and User Guide)

Background: In line with the study vision to create a “strategic financial modelling can be used as a tool to assess the impact of introducing FI on the viability of urban investment at the different investing levels,” a financial modelling tool was created as part of the deliverables. The task was to help Managing Authorities shape a high-level investment strategy. The Financial Modelling Tool should not be used to replace the financial due diligence required prior to signing funding agreements.

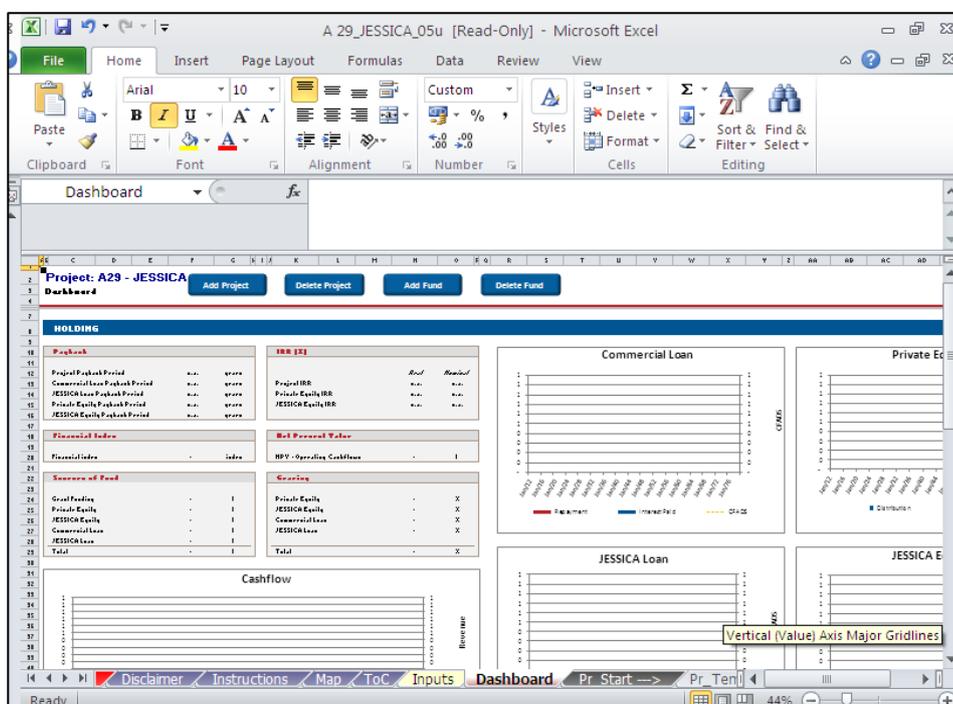
This Financial Model was designed for relevant stakeholders currently involved, or interested, in using Financial Instruments. It was specifically designed for Managing Authorities and prospective fund managers, etc. who does not have high-level modelling tools to evaluate the impacts of Financial Instruments on projects or funds in order to make strategic investment decisions.

For each level, a cashflow is calculated as well as key indicators such as the payback periods, Internal Rate of Return (IRR), Net Present Value and the financial index. The Financial Model has the flexibility to add and delete projects and funds using macros.

All the calculations present in the Financial Model are before tax. The impacts of the tax legislation which vary between countries within the European Union are not taken into account in this Financial Modelling Tool. An analysis outside the Financial Modelling Tool should be carried out to take into account the tax impacts.

A user-manual (step-by-step guide) was also developed to assist stakeholders who are not advanced users of excel to understand the principles of project structuring. There is a functionality to allow advanced user to switch to ‘manual mode’ if necessary. Managing Authorities could use the financial modelling tool to make high-level decisions which would be subject to further due diligence. It was discussed that the Financial Modelling tool could be used for training purposes in the future.

Figure 3: Financial Modelling Excel Tool



Feedback: A small number of external colleagues ranging from fund managers to Managing Authorities were invited to provide feedback on the Financial Modelling Tool. Some general feedback has been collated in the following table, generally very positive:

Table 2: Feedback on the Financial Modelling Tool

Managing Authority	<p><i>“It showed to be fairly intuitive, nevertheless the support of the manual was necessary. The manual is well structured, clear and very useful, in particular in relation to the last two examples. The prototype seems to be useful to define the general framework of the economic plan allowing the assessment by stakeholders of the financial viability of the project in a preliminary stage of the project development.”</i></p>
Fund Manager	<p><i>“The Prototype Financial Modelling Tool was generally straightforward to use, with clear and intuitive guidance between the various modules. This is also true for users with more elementary level of MS Excel skills and limited experience in the use of financial models. The “key outputs” section contains the key information required for the user. Overall, the Tool provides a quick overview of a project’s key financial metrics in a concrete and comparable form, which is very useful when undertaking a portfolio management approach of urban projects.</i></p> <p><i>Working in manual mode and unprotecting sheets is a very useful feature, yet it requires advanced level users due to the complex structure of the Tool.”</i></p>
Managing Authority	<p><i>“This will be a useful tool from an MA perspective in testing assumptions in business cases especially at fund, level, this would work at both portfolio and project level. that may be especially helpful is this tool could provide a template that prospective fund managers/operators of FIs and Managing Authorities could use as the basis for a common understanding and starting point for discussion/appraisal of proposals for FIs. It’s a long moan of my own that while we often use the same words when speaking to each other, they mean different things to different people, so consistency of understanding across the stakeholder universe can only be a good thing.”</i></p>

2.4 Portfolio Structuring Concept

Background: The development of a new portfolio structuring concept for Financial Instruments intends to give stakeholders and decision makers a practical tool for the structuring and combination of different typologies of urban investment. The main aims of the portfolio structuring are to:

- Combine different types of projects thus fostering synergy between investments to obtain a diversified portfolio where the good financial returns of some projects can compensate (cross-subsidy) for the ‘poor’ financial returns of other projects which, however, achieve good non-financial impacts (socio-economic and environmental benefits).
- Increase private sector participation by structuring a portfolio so that it offers feasible and attractive opportunities to invest in different areas of urban assets, including energy efficiency, urban development, and urban regeneration.

The projects will need to be assessed against two values: (1) the Non-financial impacts and (2) the Financial Impact which evaluates the financial aspects of the project. The projects will be put into a ‘portfolio structuring model’ which selects the best combination in terms of economic and financial returns. The Portfolio Structuring Concept provides a case Assignment on how this would work in practice.

Due to the timescale and scope of this Assignment, the Portfolio Structuring is only a concept for strategic investing and portfolio structure with a case study example. It is not an actual tool.

In order to allow users to better visualise the concept, a video of the portfolio structuring model is available at <http://youtu.be/pekwlCtMACQ>.

Feedback: A small number of external colleagues ranging from fund managers to Managing Authorities were invited to provide feedback on the Portfolio Structuring Concept Paper. Some feedback has been collated in the following table:

Table 3: Feedback on the Portfolio Structuring Concept

Fund Manager	<p><i>“The Portfolio Structuring Model Concept is a useful platform for portfolio structuring under the JESSICA initiative, as it can be used as a decision making tool in combining different urban projects in order to achieve a desired level of financial returns and socio-economic benefits of the project portfolio. The use of a single value metric for non-financial impacts provided by the Portfolio Structuring Model is very useful and can be adjusted according to user requirements. The example provided in the Portfolio Structuring Model Concept paper clearly illustrated the case. An area of potential concern is the ability to have objective and reliable values for project output indicators for the calculation of non-financial impacts.”</i></p>
Managing Authority	<p><i>“In general terms the PSMC presents a high degree of innovation as far as the approach is concerned. It allows also monitoring activities important both for the Management Authorities and for the regional stakeholders. In our opinion the PSMC might result very useful in the implementation/management phase, allowing reaching an adequate mix of projects in relation to integrated programmes, which are made of different projects with different degrees of financial return.”</i></p>

3. CONCLUSIONS AND NEXT STEPS

Whilst the scope of work was originally to support investments in urban development using Financial Instruments, however, the framework and tools developed as part of this Assignment would be useful to other thematic areas supporting the Europe 2020 Strategy.

In summary the aforementioned four deliverables will provide stakeholders with an enhanced knowledge base and a suitable framework/guidance to accelerate and improve the quality of their strategic investing using European Structural and Investment Funds.

Moving forward into the new Programming Period 2014-2020, the following are the Project Team's general recommendations based on the feedback from the external panel and general next steps:

- **Execute the Library Prototype**, which proved to be very useful based on the initial feedback from external users. Suggested next steps include:
 - Assessing internal capacity and resources to host, manage, and update the Library and other organisational and compatibility issues (i.e. where to host, signposting, etc.).
 - Appointing a web designer to support in the further implementation, particularly on the design and usability which should ideally incorporate the EIB branding (i.e. colours, logos, layout, and design)
 - Expanding the Library to include other relevant documents such as policy, regulations, and recent PPT presentation into a “one-stop shop” for all information related to Financial Instruments.
 - Updating the end user manual to reflect the changes of the new design when it is fully operational.
 - Introducing a “user” video in addition to the paper end user manual, which gives a quick introduction to Financial Instruments, as well as a tutorial on navigating the website.
- **Integrate the tools/deliverables into the proposed Technical Assistance Platform (TAP)** as and where appropriate. Suggested next steps and pending the conclusions of the TAP study:
 - Using the deliverables, particularly the Financial Modelling Tool for training purposes under the “horizontal” assistance.
 - Promoting the Library as and when it is operational via the Technical Assistance Platform.
 - Using the Financial Instruments Guide as an overarching document, and subsequently develop mini training modules around the key phases of the Financial Instrument lifecycle.
 - Taking stock of the guidance issues to date on Financial Instruments, consider developing further mini-guides on various topics.
 - Developing structured online courses (e-learning) and classroom-style training on theories, concepts, and practical use of Financial Instruments
- **Utilise on-line videos and other social media technologies, in addition to user-manuals** as an introduction to the Library Prototype, Financial Modelling Tool, and Portfolio Structuring Concept.
 - A general “introductory” video on the importance of using Financial Instruments could also be produced in due course, and embedded on the EIB, EC, or TAP websites.
- **Transfer the Financial Instruments Guide into interactive web-based tool** at a later date,
 - This could be hosted on the Library in addition to the EIB, EC, and TAP websites.
 - A template or “pilot” could be developed on PPT (downloaded from a website with interactive links) and later transferred onto a web-portal.
- **Consider an extension to develop the Portfolio Structuring Concept** into a usable model.

APPENDIX 1: Financial Instrument Guide

Please see attachment titled “Financial Instruments Guide: Setting up and implementing Financial Instruments.”

APPENDIX 2: Financial Instrument Library Prototype

The Financial Instruments Library Prototype is available on: <http://www.eib.org/jessicalibrary>.

Accompanying the Financial Instruments Library Prototype is:

- Financial Instruments Library Prototype Administrator Guide (for internal use only)
- Financial Instruments Library User Guide

The screenshot shows the JESSICA LIBRARY website. At the top left is the text "JESSICA LIBRARY" in blue. To the right are the logos for the European Commission, the European Investment Bank (EIB), and the slogan "The EIB bank". Below the header is a navigation bar with links: HOME, SEARCH, GUIDE, ABOUT, CONTACT, and CONFIGURATION. The main content area features the text: "This is the Library of JESSICA" and "Sharing practical experiences in implementing financial instruments in urban development". Below this is a section titled "INTRODUCTION" with two paragraphs of text. The first paragraph describes the library's search capabilities, and the second paragraph explains its funding and purpose. A final paragraph states that there are 304 JESSICA case studies available.

JESSICA LIBRARY

European Commission | European Investment Bank | The EIB bank

HOME | SEARCH | GUIDE | ABOUT | CONTACT | CONFIGURATION

This is the Library of JESSICA

Sharing practical experiences in implementing financial instruments in urban development

INTRODUCTION

The JESSICA library allows you to quickly search through most of the JESSICA evaluation and horizontal studies according to different criteria. You can easily access case studies searchable by 12 different criteria (such as Thematic Objective, Geographic Area, Operating Area, Market Failure, etc) and several sub-criteria (for instance, under "Operating Area" you might specifically seek projects dealing with urban infrastructure for education, or seek projects which used guarantees as "Financial Options" to overcome externalities as "Market Failures"). For a full guide covering all search options, please check [Guide](#).

The library is a prototype financed by the European Commission and developed by the European Investment Bank in order to better disseminate knowledge and to assist JESSICA stakeholders in better taking advantage of financial instruments in their urban development strategies. Read more about the JESSICA library in the [About page](#).

Currently there are **304 JESSICA case studies** to look through, while the database is regularly updated with the most recent JESSICA evaluation and horizontal studies commissioned by the EIB.

APPENDIX 3: Financial Modelling Tool

The Financial Modelling Tool is available as a separate Excel spreadsheet. For users with beginner's level of excel, it is very beneficial to review the Financial Modelling User Guide to familiarise themselves with the Financial Model.

APPENDIX 4: Portfolio Structuring Model: A Concept Paper

The Portfolio Structuring Model: A Concept Paper is attached as a separate document.

There is also a video explaining the model available at <http://youtu.be/pekwICtMAcQ>.