

REGIONE AUTONOMA DELLA SARDEGNA

European Investment Bank

JESSICA Focused Evaluation Study of the *Regione Autonoma della Sardegna* in Italy

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Submitted by



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Contents

1	Executive summary	1
2	Introduction	6
3	Rationale for using JESSICA to invest in urban regeneration and energy efficiency	8
3.1	<i>Summary of priorities, strategies and beneficiaries for urban development and energy efficiency/ renewable energy (“EE/RE”) within the Sardegna ERDF OP</i>	8
3.2	<i>Review of available resources under the Sardegna ERDF OP</i>	14
4	Integrated plans/projects that meet the requirements of JESSICA	17
4.1	<i>Analysis of existing initiatives, compliant with the regional strategy and planning framework for energy efficiency and urban development</i>	17
4.1.1	<i>Energy efficiency</i>	17
4.1.2	<i>Urban development</i>	20
4.2	<i>Selection of project proposals suitable as investment opportunities for JESSICA</i>	22
4.2.1	<i>Analysis of options meeting criteria for speed, simplicity and reliability</i>	22
4.2.2	<i>Potential beneficiaries of JESSICA fund(s)</i>	23
4.2.3	<i>Key criteria to identify and prioritise projects to leverage additional in-kind or cash funds, to achieve financial sustainability</i>	23
4.2.4	<i>How reshape/group existing projects for the JESSICA mechanism</i>	24
5	Identification of a pipeline of eligible projects for JESSICA 27	
5.1	<i>Stakeholders’ consultation process</i>	27
5.2	<i>Methodology for the identification of eligible projects</i>	27
5.2.1	<i>EE/RE projects</i>	29
5.2.2	<i>Urban development projects</i>	32
6	Investment Strategy for JESSICA	52
6.1	<i>Rationale for a single or different vehicle(s)</i>	53
6.2	<i>Possible operational set-up for candidate UDF(s)</i>	55
6.3	<i>Project(s), or a set of pilot projects, complying with integrated urban regeneration and/or energy efficiency criteria and suitable for Structural Funds support</i>	55
6.3.1	<i>Specific Urban Projects for Urban Development</i>	56
6.3.2	<i>Specific EE/RE Urban Projects</i>	56
6.3.3	<i>Proposed timetable for the implementation</i>	57
	Appendix 1: Legal and regulatory aspects of JESSICA implementation	60



Table of abbreviations

EC	European Commission
EE/ER	Energy Efficiency/Renewable Energies
EIB	European Investment Bank
ERDF	European Regional Development Fund
ERR	Economic rate of return
ESCO	Energy Services Company
FAS	Fund for Underused Areas (<i>Fondo Aree Sottoutilizzate</i>)
GDP	Gross Domestic Product
GHG	Greenhouse Gas
HF	Holding Fund
IB	Investment Board
ICTs	Information and communication technologies
IRR	Internal Rate of Return
JESSICA	Joint European Support for Sustainable Investment in City Areas
JSHF	JESSICA Sardegna Holding Fund
NSRF	National Strategic Reference Framework
ONLUS	Non-profit organisation of social utility (<i>Organizzazione non lucrativa di utilità sociale</i>)
OP	Operational Programme
PISU	Integrated Urban Development Plan (<i>Piano Integrato di Sviluppo Urbano</i>)
PPP	Public Private Partnership
RAS	Autonomous Region Sardinia (<i>Regione Autonoma della Sardegna</i>)
RES	Renewable Energy Sources
SEAP	Sustainable Energy Action Plan
SFIRS	Financial institution in-house organism of the RAS (<i>Società Finanziaria Regione Sardegna</i>)
SMEs	Small and Medium Enterprises
STU	Urban Transformation Company (<i>Società di Trasformazione Urbana</i>)
TFEU	Treaty on the Functioning of the European Union
TUEL	Consolidated Local Government Act (<i>Testo Unico Enti Locali</i>)
UDF	Urban Development Fund



1 Executive summary

PwC was commissioned by the European Investment Bank (EIB) to undertake this study in May 2011 with the aim of assessing the applicability of JESSICA instruments in the context of the Sardinia Region, during discussions undertaken by the EIB and the *Regione Autonoma della Sardegna* concerning the possible signature of a Funding Agreement in order to:

- define the amount of funds to be invested by the JESSICA initiative in public-private partnerships or other projects included in Integrated Plans for Sustainable Urban Development (“Urban Projects”) or to legal or natural persons carrying out specific investment activities in energy efficiency and use of renewable energy included in Integrated Plans for Sustainable Urban Development (“EE/RE Urban Projects”)¹ through dedicated Urban Development Funds (UDFs), so to ensure a quick allocation of resources;
- define the strategy for implementation of JESSICA (“Investment Strategy”); and
- identify key operational steps for a quick implementation of the initiative.

The European Regional Development Fund Operational Programme 2007-2013 (Sardegna ERDF OP) of the *Regione Autonoma della Sardegna* (RAS) was initially approved by the European Commission (EC) through Decision C(2007) 5728 on November 20th, 2007. The revision of the Sardegna ERDF OP is currently in the process of being approved by the European Commission.

The revised Sardegna ERDF OP envisages the adoption of financial engineering instruments, specifically JESSICA, to finance initiatives under Axis 5 and Axis 3 of the Sardegna ERDF OP (see section 3.1).

Axis 3 Energy is mainly focused on improvement and sustainable management of energy sources. Specific goals consist of the promotion of solar energy (in particular, supporting high temperature thermodynamics management); energy produced by biomass, hydro and wind power (in particular, promoting small and micro sized plants). Interventions will also be promoted in order to pursue energy efficiency and energy saving in public buildings as well as in public use of energy. At the same time, local enterprises will be incentivized to adopt high-efficiency technologies for energy saving, to be applied to buildings, factories, and warehouses.

Through the **Axis 5 Urban Development**, the RAS aims at realising infrastructural actions in major towns and in small and medium-sized cities, in order to promote integrated regeneration of urban areas, improving environmental, social and productive conditions, and strengthening relationships with the territory. Furthermore the actions under this Axis should help the development of disadvantaged minor areas, tackle the decline and valorising the historical, productive, and landscape heritage. The strategic goal is therefore the improvement of the quality of life in urban areas through the diffusion of high quality services; the valorisation and requalification of urban environment also aiming at boosting tourism; the strengthening of sustainable urban transport and flexible mobility; promoting sustainable buildings either with regard to new buildings or to renovation of existing infrastructures; fighting social exclusion.

A focus on existing initiatives, when selecting projects to be potentially supported by JESSICA funds, could allow a successful implementation of the JESSICA initiative in the Sardinia region within the time limits of the current programming period. For this reason, the initiatives already in place in the Sardinia region were analysed against the following criteria:

¹ Reference: article 44 of (EC) Regulation 1083/2006.

- inclusion of projects in Integrated Plans for Sustainable Urban Development²;
- capability of projects to generate revenues for investors; and
- eligibility of projects expenditures under the Sardegna ERDF OP.

In the framework of the Axis 3 the RAS devoted EUR 39m (including EUR 4m for technical assistance activities) to the **Smart City – Comuni in Classe A sub-initiative**, the first phase of the **Sardegna CO2.0 initiative**, an innovative pilot project promoted by the *Giunta Regionale della Sardegna* (Sardinia Regional Council), whose ambitious goal is to reduce substantially CO2 emissions in Sardinia (see section 4.1.1).

Smart City – Comuni in Classe A is targeted to cities, considered a key driver to turn socio-economic system into environmentally sustainable models. The Local Authorities most capable of developing a sustainable energy plan (at a further step) will be selected and become “Pioneer communities”. On June 30th, 2011, the RAS launched the public procedure³ to identify **Pioneer communities**. Applications, submitted by Local Authorities (or coalitions of Local Authorities) by September 20th, 2011, will be assessed and then clustered into different groups based on selected parameters. Pioneer communities will sign a Memorandum of Understanding with the Region and will receive technical and administrative assistance by Sardegna Ricerche, an in-house company of the RAS, and advice on financial aspects by SFIRS SpA, the financial institution in-house organism of the RAS, in order to develop their SEAPs (Action Plans for Sustainable Energy). SEAPs are expected to be submitted to the RAS within seven months from the signature of the Memorandum of Understanding. After submission, the RAS will proceed to evaluate the SEAPs based on pre-identified criteria. Revenue generating projects included in such SEAPs may meet the criteria required to be supported by the JESSICA funds.

Strategic urban planning set by the RAS consists of a participative process involving institutional, socio-economic and territorial partners. The process started in March 2005 and initially involved the metropolitan urban areas of Cagliari and Sassari, and the municipalities of Oristano, Nuoro, Carbonia, Iglesias and Olbia (for a total of 28 urban centres). In November 2007 the process was extended resulting in a total of 34 municipalities involved in the strategic planning process. The Sardegna ERDF OP confirmed the relevance of strategic urban planning. Specifically, the implementation strategy defined for **Axis 5** foresees the development of adequate operating tools (Integrated Plans for Urban Development)⁴ defined as tools for the implementation of the Strategic Development Plans for city areas (for major cities) and for networks of small cities. Thus, Integrated Plans for Urban Development are those plans that translate urban development strategies into integrated set of projects, identified through a dialogue among main stakeholders (Region, municipalities, private partners, citizens) aimed at reaching the objectives set by the strategies themselves. Integrated Plans are defined through a bottom up approach: first, key projects are identified and then Integrated Plans are defined.

In order to gather information on projects that may meet the requirement of JESSICA, Stakeholders were consulted through workshops, face-to-face meetings and follow-up calls. In particular, two workshops and five meetings were organised.

As regard to projects under Axis 3, due to the early stage of the Smart City- Comuni in Classe A sub-initiative, no related project is currently available. According to the procedure set up by the RAS (section 4.1.1), preliminary SEAPs will be ready on February/March 2012. Notwithstanding this, the province of Olbia-Tempio proposed three projects that were assessed against the JESSICA compliance criteria (for a total investment cost of about EUR 31m).

² As defined by art. 44 of (EC) Regulation 1083/2006.

³ <http://www.regione.sardegna.it/j/v/55?s=1&v=9&c=389&c1=336&id=25699>

⁴ Integrated Plans for Urban Development (PISU) are defined in the Regional Development Plan of the RAS www.regione.sardegna.it/documenti/1_84_20100226121133.pdf

As far as Urban Development is concerned, the Municipalities of Sassari, Cagliari, Quartu and Alghero, and the Province of Olbia-Tempio presented a list of projects that were assessed against the JESSICA compliance criteria. Based on available data, all proposed were deemed potentially eligible for JESSICA for a total investment cost of about EUR 252,8m, of which almost EUR 65m eligible under Sardegna ERDF OP.

Based on the information analysed, JESSICA instruments were considered applicable in the context of the Sardinia Region. The Managing Authority of the Sardegna ERDF OP decided then to dedicate EUR 70m to the JESSICA initiative, out of which EUR 35m devoted to EE/ER projects and other EUR 35m to Urban Development initiatives. Both amounts are considered well aligned with the existing investment opportunities, bearing in mind that, in addition, the RAS has devoted EUR 4m of technical assistance for local authorities to develop EE/ER projects compliant with the requirements of JESSICA.

Taking into account (i) the objectives that the RAS intends to pursue, (ii) the amount of funds devoted to JESSICA, and (iii) the different level of implementation of urban development and EE/RE projects, the proposed implementation structure of the JESSICA mechanism foresees the possibility to select UDF(s) that establish one or two vehicle(s), according to the following options:

- OPTION 1: UDF(s) adopting multiple investment thematic strategies through the establishment of a single vehicle (in order to invest in both types of projects) (see Figure 4). The costs of one single UDF could be characterized by significant elements of economies of scale compatible with the principles of sound and efficient financial management.⁵
- OPTION 2: UDF(s) that establish two different vehicle(s), one dedicated to Urban Development Projects and one dedicated to EE/ER Urban Projects (see Figure 5). The allocation of the funds to more than one UDF could (i) facilitate a greater and widespread coverage of the territory thanks to the combination of both UDF networks, (ii) benefit of the competition between the two UDFs with a positive impact on the quality of the investment activity, the financial conditions offered to final recipients and the overall effectiveness of the JESSICA implementation.

In both options above, management costs and fees have to be calculated having regard to the capital contributed from the ERDF OP to the Holding Fund taking into account for this purpose not the amounts committed.⁶

To smooth the process and allow a successful implementation of the JESSICA initiative in the Sardinia Region, the UDF(s) should be selected through a single Call for Expression of Interest divided in two Lots, one focused on the urban development initiatives and the other one to the EE/RE projects where UDF candidates may have the possibility to participate to a single or both lots and may decide to implement this via **one or two vehicle(s)** to allocate JESSICA funds, so to attract a larger number of applicants.

The investment strategy to be developed via the UDF(s) shall take into account the following criteria for the selection of projects:

- according to the EU Structural Funds Regulation, are part of an integrated plan for sustainable urban development,
- have received confirmation from the Managing Authority on their compliance with criteria specified within Sardegna ERDF OP,

⁵ In fact, staff costs, cost of the offices, equipments, IT systems, consumables and supplies, directly linked to the management and investment of contributions from OP to UDF and other overheads incurred in carrying out activities such as selection and tendering procedures, controls, monitoring and reporting, consultancy and information and publicity could be allocated pro rata to the operations according to a duly justified fair and equitable method.

⁶ Regarding that, the fulfilment of the points from 2.6.12 to 2.6.17 of the Guidance Note on Financial Engineering Instruments under Article 44 of Council Regulation (EC) No 1083/2006 should be carefully taken into account. In particular, the point 2.6.17 where the FEI o UDF charges the final recipients with such arrangement or other fees, the amount of these fees has to be deducted from eligible expenditure claimed from the SF under Article 78(6) (d) of the General Regulation.

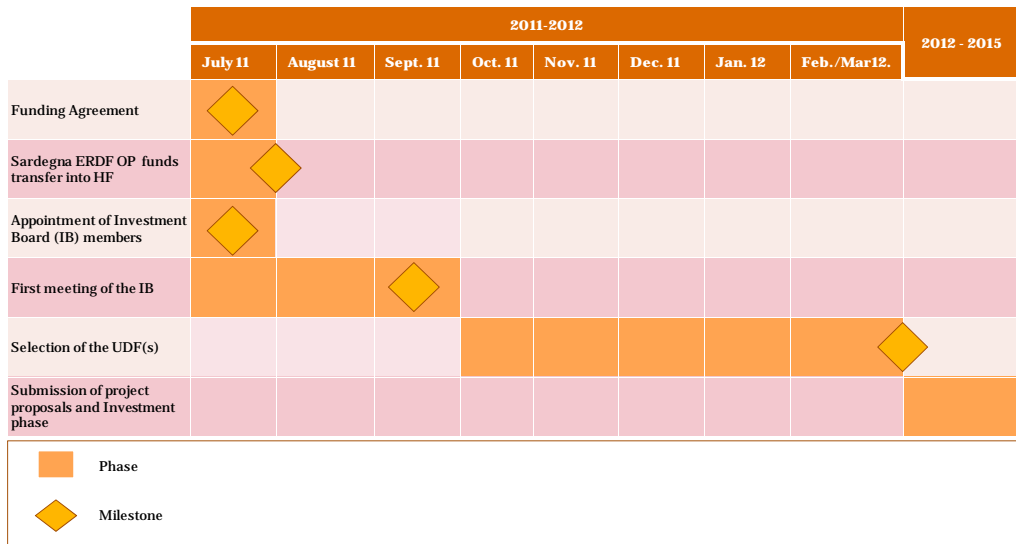
- offer an acceptable return on investment (i.e. in line with market rates) following the contribution of JESSICA funds,
- are new or have not been already completed (a UDF shall not re-finance acquisitions or participate in projects already completed) in order to avoid projects with grant contracts signed before the date of 01.01.2007.

With respect to the first point above, integrated plans for sustainable urban development can include both:

- Integrated Urban Development Plans (PISU) to be implemented, initially, by the 34 municipalities selected under the urban development implementation strategy and then extended to all municipalities that will develop strategic urban plans (see section 4.1.2); and
- Sustainable Energy Action Plans (SEAPs) to be draft under the Sardegna CO2.0 initiative (see section 4.1.1).

The figure below summarises the phases, and relative timeline, required for the implementation of JESSICA financial instruments in Sardinia Region.

Figure 1 Implementation phases



The first phase consists of the negotiation and signature of the Funding Agreement for the establishment of the JESSICA Sardegna Holding Fund (JSHF) based on the main findings of this evaluation study. During this phase, the Investment Strategy, as well as the roles and responsibilities of the key parties involved are defined. The agreement between the EIB and the RAS was signed on July 20th, 2011. The first meeting of the Investment Board (IB) took place on the same date and covered the approval of the internal governance rules and the code of conduct. The second phase concerns the selection of the UDF(s). During this phase starting in September 2011, the EIB will prepare the public tender documents which will be presented to the IB for approval. The UDF(s) selection process will be then launched in October 2011. The launch of the process will be officially announced on September 26th, 2011 during a public meeting organised by the Presidency of the RAS.

At the end the UDF selection process (February 2012) the EIB will present the results of the evaluation for the selection of the UDF(s) to the IB for approval. Following IB endorsement negotiation for the operational agreement to be executed between the JSHF and the UDF(s) will begin.

2 Introduction

PwC was commissioned by the EIB to undertake this study in order to prepare the Funding Agreement discussions between the EIB and the RAS in order to:

- assess the applicability of JESSICA in the context of the Sardinia Region;
- define the amount of funds to be invested by the JESSICA initiative on projects through dedicated vehicle(s), so to ensure a rapid allocation of resources;
- define the Investment Strategy;
- identify key operational steps for a quick implementation of the initiative.

In order to achieve the objectives, the study:

- Establishes the rationale for using JESSICA to invest in urban regeneration and energy efficiency within the Sardegna ERDF OP, with an emphasis on how this can fit into the existing urban development and energy efficiency planning instruments already implemented within the Region (**Section 3**).
- Identify integrated projects that meet the requirements of JESSICA, focusing on urban development initiatives and/or on energy efficiency, such as “Smart City– Comuni in Classe A” (**Section 4**).
- Suggests the Investment Strategy for the implementation of the JESSICA financial engineering instruments that best fit with the regional context (**Section 6**).

The Study is mainly based on information / data provided by the RAS Managing Authority of the Sardegna ERDF OP (“Managing Authority”), and by local stakeholders involved (such as Sardinia municipalities and/or provinces).

3 Rationale for using JESSICA to invest in urban regeneration and energy efficiency

3.1 Summary of priorities, strategies and beneficiaries for urban development and energy efficiency/ renewable energy (“EE/RE”) within the Sardegna ERDF OP

The Sardegna ERDF OP was initially approved by the European Commission (EC) through Decision C(2007) 5728 on November 20th, 2007. The revision of the Sardegna ERDF OP is currently in the process of being approved by the European Commission (EC).

The Sardegna ERDF OP is part of the Regional Competitiveness and Employment objective with a total budget of EUR 1,7bn, of which EUR 680m from the ERDF resources (see table below).

Table 1 Sardegna ERDF OP funds by Priority Axis

Priority Axis	Total	ERDF contribution (EUR)
1. Information Society	170.167.941,00	68.067.176,00
2. Inclusion, Social Services, Education and Lawfulness	161.659.544,00	64.663.818,00
3. Energy	187.184.735,00	74.873.894,00
4. Environment, Attractiveness of Natural and Cultural Resources, Tourism	382.877.868,00	153.151.147,00
5. Urban Development	306.302.295,00	122.520.918,00
6. Competitiveness	459.453.442,00	183.781.377,00
7. Technical Assistance	34.033.588,00	13.613.435,00
TOTAL	1.701.679.413,00	680.671.765,00

Source: Sardegna ERDF OP (the latest revision of the Sardegna ERDF OP - currently under approval by the EC)

There are seven Priority Axes (“Axes”) of the Sardegna ERDF OP, focused on different targets and objectives:

1. **Information Society.** This priority aims at improving the quality and accessibility of Information Society services by introducing and applying information and communication technologies (ICTs). Eligible initiatives include interventions in support of e-government and e-citizenship services, as well as the setup of broadband in areas affected by the digital divide.

2. **Inclusion, Social Services, Education and Lawfulness.** This priority promotes the realisation of services and infrastructure aimed at reducing the risk of social exclusion and improving integration and non-discrimination among local population. This priority aims at implementing actions and instruments against the school drop-out rates and to improve overall lawfulness and security in the region.
3. **Energy.** The aim is to promote sustainable development by the improvement of energy efficiency and the development of renewable energies.
4. **Environment, Attractiveness of Natural and Cultural Resources, Tourism.** The strategy under this priority focuses on efficient and sustainable use of environmental resources and development of natural and cultural resources. Main objective is to make the region more attractive and to support sustainable tourism.
5. **Urban Development.** This territorial priority is focused on promoting the attractiveness and competitiveness of Sardinia by tackling internal development disparities and improving living standards and the quality of life in urban and disadvantaged areas.
6. **Competitiveness.** The global objective of this priority is to boost competitiveness by supporting research and innovation among enterprises and by promoting cooperation between universities, research centres and business activities.
7. **Technical Assistance.** Technical assistance aims at improving the effectiveness and efficiency of the Sardegna ERDF OP implementation and at ensuring that relevant information on the Sardegna ERDF OP and EU Cohesion Policy is disseminated to the general public and beneficiaries.

Originally, the Sardegna ERDF OP envisaged the adoption of financial engineering instruments, specifically JESSICA, only to finance initiatives under Axis 5. One of the objectives of the revision mentioned above is the possibility to extend the adoption of financial engineering instruments to finance initiatives under other Axes – particularly Axis 3 Energy.

Axis 3 Energy

Context

The context analysis carried out in the Sardegna ERDF OP highlights that the Sardinia energy system is almost completely dependent on external sources. Further, the region is not characterised by diversified energy sources, being mostly dependent on oil (75%) and solid fuel (23%). Moreover, the region is not connected to the national natural gas transport infrastructure, whilst electrical energy is generally produced by thermal power plants.

Consumption in the Sardinia territory is higher compared with the national data (161,15 tep/M€ vs. 124,8 tep/M€), in particular with reference to electrical consumption (493,7 MWh/M€ vs. 240,3 MWh /M€) and to industrial customers. The inefficiency of the energy system is evidenced by the energy intensive productive system and by the frequency of interruption in electrical supply. Serious interruptions per year of the energy supply in Sardinia are higher than the national average (frequency of 3,9 per user vs. 2,5 per user). Renewable sources are scarcely developed in the region: only 4,9% of the total amount of Sardinia energy production is by renewable sources. These figures are satisfactory neither compared with the national average (18%) nor with the European objective recently stated in

the 20-20-20⁷ (see section 4.1.1). However, renewable resources have a high potential for future development in Sardinia.

The greater reliance on oil sources and electrical energy also for thermal use, such as heating, creates higher consumption due to its low efficiency conversion, higher marginal costs and negative environmental impact, comparing with other energy sources.

Furthermore, the geographical condition of Sardinia, as an island, leads to some disadvantages in terms of security and continuity of the energy supply. Industries in the region are characterised by energy intensive production and the energy intensity index is twice than the national average.

In order to overcome the above-mentioned disadvantages, the region is developing new interconnection with the trans-European energy infrastructure⁸, at the same time improving its indigenous sources of energy.

Currently, Sardinia presents a high level of greenhouse gas emissions (GHG) relative both to the regional GDP and to the per capita rate of emissions, creating an important issue in terms of environmental impact. Emissions are higher in some industrial districts, such as Portoscuso, Sarroch, Porto Torres and Sassari. Finally, an important component of the Sardinia energy consumption is its own transport sector that generally consumes more than the national average but less than other regions in the south of Italy. This is probably due to an extensive use of individual means of transport and to the transport needs (in terms of aviation and maritime transport) related to fact that Sardinia is an island.

Objectives

The strategy of **Axis 3 Energy** is based on the main evidences on the regional energy system as described in the context analysis carried out in the Sardegna ERDF OP summarised above. The Axis is mainly focused on the improvement and sustainable management of energy sources to be pursued through:

- promotion of energy efficiency;
- increase in the production of renewable energy;
- decrease in reliance of conventional energy sources;
- development of technical knowledge and technologies related to renewable energy and energy efficiency.

Specific goals consist of the promotion of solar energy (in particular, supporting high temperature thermodynamics management); energy produced by biomass, hydro and wind power (in particular, small and micro sized plants).

Interventions will also target energy efficiency and energy savings in public buildings as well as in the use of energy in the public sector. At the same time, local enterprises will be incentivized to adopt high-efficiency technologies for energy saving, to be applied to buildings, factories, and warehouses.

The adoption of an integrated urban approach (e.g. through SEAPs or other similar instruments) to implement the regional energy strategy⁹ can be an opportunity to achieve the Operational Objectives of Axis 3 (see table 2 below). In order to be effective, the integrated urban plans in the energy sector have to contain a clear outline of the strategic actions that the

⁷ http://europa.eu/legislation_summaries/energy/european_energy_policy/en0024_en.htm

⁸ The submarine cable interconnection between Sardegna and Italian peninsula; and the underwater gas export pipeline to Italy from Algeria over the Islands of Sardinia and Corsica (GALSI).

⁹ In 2006, the RAS published the Regional Energy Environmental Plan (*Piano Energetico Ambientale Regionale – PEAR*): <http://www.regione.sardegna.it/j/v/66?s=1&v=9&c=27&c1=1241&id=3330>

local authorities intend to take in order to reach their commitments in 2020 in terms of CO2 reduction target. These plans should provide concrete reduction measures, together with time frames and clearly defined responsibilities, which translate the long-term strategy into concrete actions.

Table 2 Main objectives and related beneficiaries of Axis 3

Axis	General Objective	Specific Objective	Operational Objective	Beneficiaries
3 Energy	Promote sustainable development opportunities of by setting up productive networks based on increased production of energy from renewable sources and on energy saving	3.1 Enhance energy efficiency and energy production based on RES	3.1.1 Increase Energy production from RES also through the promotion of diffuse generation of energy	Regional Administration (including its in-house agencies), Local Authorities (including their in-house agencies), Energy Agencies, Enterprises, Universities, Research Centers
			3.1.2 Promotion of energy saving, energy intensity reduction and energy efficiency	Regional Administration (including its in-house agencies), Local Authorities, Energy Agencies, Enterprises, Universities, Research Centers

Source: Sardegna ERDF OP (the latest revision of the Sardegna ERDF OP -currently under approval by the EC)

Axis 5 Urban development

Context

Regarding the territorial features of the Sardinia urban system, the context analysis carried out in the Sardegna ERDF OP introduces the Sardinia territory as a polycentric urban system, which consists of 377 municipalities and includes:

- metropolitan urban centers (such as Cagliari, Sassari and Olbia) whose economical and productive activities act as development drivers;
- medium/large-sized urban centers (such as Tempio, Oristano, Nuoro Lanusei, Tortoli, Sanluri, Villacidro, Carbonia, Iglesias);
- medium/small and small municipalities, which are located in disadvantaged areas (such as mountain areas and towns with low population density) and which are characterised by low rate of economic development.

As a result, the region is heterogeneous in term of urban development, including both metropolitan developed centers and networks of small cities that are typical of the rural area.

More in detail, Sardinia metropolitan cities represent the access gate to the region and the centres around which other smaller communities develop. On the one hand, larger cities are centres for logistics, transport and services, on the other hand, they are characterised by problems in terms of congestion, intensive building development and inefficient public services (particularly transport services). In addition, urban areas have not developed their full potential in the tourist sector, despite the presence of significant historical and cultural sites. As such, tourism is concentrated in the coastal areas of the region. In addition, metropolitan cities register high rates of unemployment.

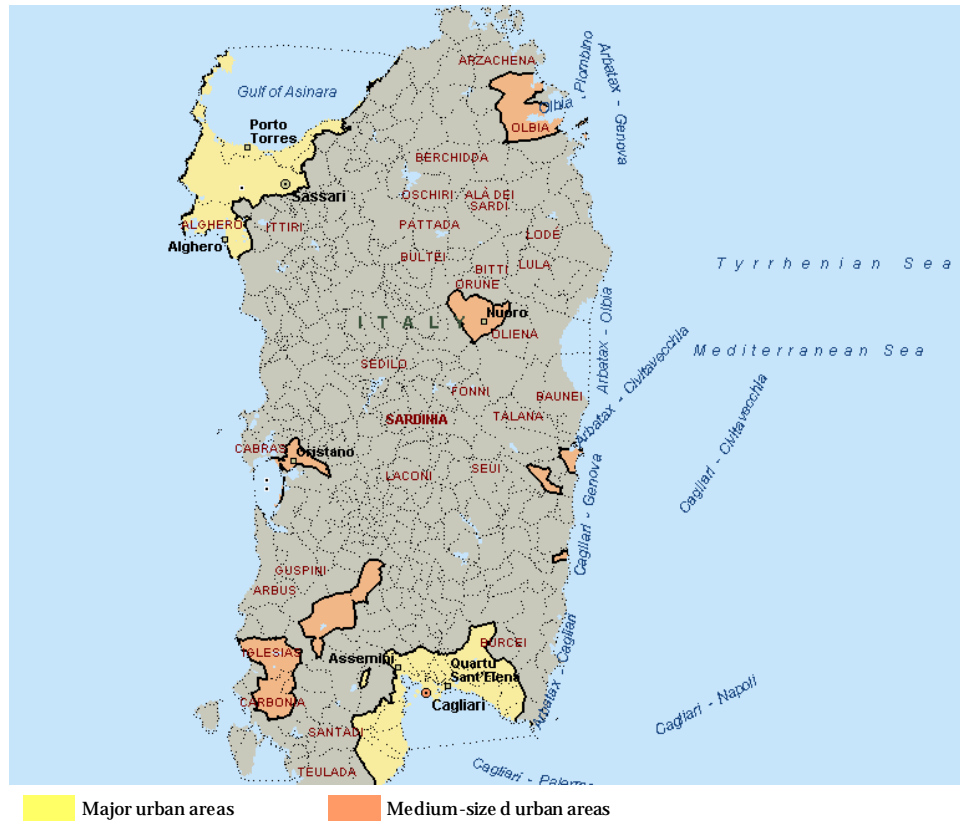
Medium/small-sized and small-sized municipalities are mostly rural, mountain and historical areas that often host relevant cultural sites, but are marginalized (due to the lack of spatial integration with the main centers of economic activity in Sardinia) and are not linked to the

regional, tangible and intangible, network of infrastructure. The smaller regional municipalities are generally characterised by a prevalence of rural activities, with low economical growth rates, inefficient management of services and resources and depopulation.

With regard to sustainable urban development (as specified by article 8, EC Regulation 1080/2006), based on the experience from the past Structural Fund programming period 2000-2006, the following key territorial intervention areas (shown in figure below) can be identified:

- **Major urban areas:** area of Cagliari and related hinterland (cities of Quartu Sant'Elena, Selargius, Quartucciu, Monserrato, Settimo, Sinnai, Maracalagonis, Sestu, Elmas, Assemini, Decimomannu, Capoterra, Sarroch, Villa S. Pietro, Pula), and area of Sassari (including cities of Sassari, Porto Torres, Alghero, Stintino, Sorso, Sennori, Castelsardo);
- **Small and Medium-sized urban areas:** cities of Oristano, Nuoro, Olbia, Tempio, Iglesias, Carbonia, Sanluri, Villacidro, Lanusei, Tortoli.

Figure 2 Sardinia major and medium-sized urban areas



Objectives

Based on the main difficulties faced by Sardinia municipalities to progress towards a sustainable development, through **Axis 5** of the Sardegna ERDF OP the RAS aims at realising infrastructural actions in all major and small and medium-sized urban areas. The main goals of Axis 5 consist of promoting integrated regeneration of urban areas, improving environmental, social and productive conditions and strengthening relationships with the territory. Furthermore the Axis supports the development of disadvantaged minor areas, tackles the decline and valorises the historical, productive, and landscape heritage. The Axis strategy is also focused on creating synergies with other initiatives promoted at regional and national level with public funds, in support to deprived city areas. In addition, the Axis shall

support integrated actions for urban requalification and regeneration targeting social, economical and environmental conditions of urban areas, realized with national funds.

The overarching goal is therefore the improvement of the quality of life in urban areas through the diffusion of high quality services, and may be broken down in the following Operational Objectives (see table below):

- optimizing sustainable mobility, urban transport connections and accessibility;
- redevelopment of public areas (including public parks and gardens and historical heritage), and setting up of new infrastructure aimed at providing innovative urban services and promoting socio-economic activities;
- enhancing social inclusion through interventions aimed at promoting integration and development of human capital;
- promoting pilot actions aimed at supporting territorial entrepreneurship;
- recovery of environmental heritage and protection of historical-cultural territorial characteristics;
- supporting specific territorial know-how and promoting productive systems in minor urban centers.

Table 3 Main objectives and related beneficiaries of Axis 5

Axis	General Objective	Specific Objective	Operational Objective	Beneficiaries
5 Urban Development	Enhance attractiveness and competitiveness of regional territory through redevelopment and balanced territorial development policies	5.1 Enhance the integrated regeneration of urban areas improving environmental, social and productive conditions and strengthening the connections of these areas with the regional territory	5.1.1 Optimize sustainable mobility, urban transport connections and accessibility	Regional Administration (including its in-house agencies), Local Authorities, Public enterprises
			5.1.2 Recovery of public spaces (including public parks and gardens and architectural heritage), and setting up of new infrastructures aimed at providing innovative urban services and promoting socio-economic activities	Regional Administration (including its in-house agencies), Local Authorities, Public and private enterprises
			5.1.3 Enhance social inclusion through interventions aimed at promoting integration and development of human capital	Regional Administration (including its in-house agencies), Local Authorities, Universities, Public and private enterprises
			5.1.4 Promote pilot actions aimed at supporting territorial entrepreneurship	Regional Administration (including its in-house agencies), Local Authorities, Public and private enterprises, ONLUS ¹⁰
		5.2 Enhance the development of minor, disadvantaged centres fighting decline and improving	5.2.1 Recovery of environmental heritage and protection of historical-cultural territorial characteristics	Local Authorities, Public and private enterprises, ONLUS
			5.2.2 Recovery and support	Local Authorities,

¹⁰ Non - profit organisation of social utility (*Organizzazione non lucrativa di utilità sociale – ONLUS*).

Axis	General Objective	Specific Objective	Operational Objective	Beneficiaries
		historical/landscape and productive heritage	of specific territorial know-how and promotion of productive systems in minor urban centers	Public and private enterprises

Source: Sardegna ERDF OP (the latest revision of the Sardegna ERDF OP - currently under approval by the EC)

3.2 Review of available resources under the Sardegna ERDF OP

Within the Sardegna ERDF OP, EUR 296m (approx. 17% of total funding), of which EUR 118m comes from the ERDF, are dedicated to Axis 5 – Urban Development, and EUR 182m (approx. 11% of total funding), of which EUR 73m are from the ERDF, are dedicated to Axis 3 - Energy.

Based on (EC) Regulation 1828/2006 - art.11 – an **indicative distribution of Sardegna ERDF OP resources** among relevant categories of expenditures for Axes 3 and 5 is shown in the tables below:

Table 4 Categories of spending for Axis 3 Energy

Code	Key issues	ERDF contribution (EUR)
39	Renewable energy: wind	5.922.910,00
40	Renewable energy: solar	32.381.173,00
41	Renewable energy: biomass	3.899.607,00
42	Renewable energy: hydroelectric, geothermal and other	11.901.723,00
43	Energy efficiency, co-generation, energy management	20.768.476,00
TOTAL		74.873.889,00

Source: Sardegna ERDF OP (the latest revision of the Sardegna ERDF OP - currently under approval by the EC)

Table 5 Categories of spending for Axis 5 Urban development

Code	Key issues	ERDF contribution (EUR)
06	Assistance to SMEs for the promotion of environmentally-friendly products and production processes (introduction of effective environment managing system, adoption and use of pollution prevention technologies, integration of clean technologies into firm production)	15.193.572,00
09	Other measures to stimulate R&I and entrepreneurship in SMEs	400.000,00
13	Services and applications for the citizen (e-health, e-government, e-learning, e-inclusion, etc.)	34.309.600,00
25	Urban transport	2.000.000,00
26	Multimodal transport	4.400.000,00
28	Intelligent transport systems	5.200.000,00
30	Ports	12.000.000,00

Code	Key issues	ERDF (EUR)	contribution
52	Promotion of clean urban transport	52.130.800,00	
58	Protection and preservation of the cultural heritage	10.210.400,00	
61	Integrated projects for urban and rural regeneration	24.780.051,00	
62*	Development of life-long learning systems and strategies in firms; training and services for employees to step up their adaptability to change; promoting entrepreneurship and innovation	850.800,00	
71*	Pathways to integration and re-entry into employment for disadvantaged people; combating discrimination in accessing and progressing in the labour market and promoting acceptance of diversity at the workplace	4.253.936,00	
75*	Education infrastructure	30.674.300,00	
76*	Health infrastructure	18.521.375,00	
77	Childcare infrastructure	193.575,00	
79*	Other social infrastructure	8.292.575,00	
TOTAL		223.410.984,00	

(*) eligible categories of expenditures according to art. 5 of Implementing Regulation, as amended.

Source: Sardegna ERDF OP (the latest revision of the Sardegna ERDF OP - currently under approval by the EC)

4 Integrated plans/projects that meet the requirements of JESSICA

4.1 Analysis of existing initiatives, compliant with the regional strategy and planning framework for energy efficiency and urban development

4.1.1 Energy efficiency

The overall goal of European energy policy is to ensure safe, secure, sustainable and affordable energy for all, businesses and consumers alike. European energy policy has developed in the last decade with the EC adopting successive Policy Papers to advance the agenda on sustainability, competitiveness and security of supply. In March 2007 the EU leaders committed Europe to transforming itself into a highly energy-efficient, low carbon economy. The EU Heads of State and Government set a series of climate and energy targets to be met by 2020. These include:

- a reduction in EU greenhouse gas emissions of at least 20% below 1990 levels;
- 20% of EU energy consumption to come from renewable resources; and
- a 20% reduction in primary energy use compared with projected levels, to be achieved by improving energy efficiency.

Collectively these are known as the “20-20-20” targets and in January 2008 the EC proposed binding legislation to implement them. This ‘climate and energy package’ was agreed by the European Parliament and Council in December 2008.

Sardegna CO2.0 initiative

Sardegna CO2.0 is an initiative promoted by the *Giunta Regionale della Sardegna* (Sardinia Regional Council) whose ambitious goal is to accelerate the decrease in CO2 emissions in Sardinia, by fostering renewable energy and by increasing energy efficiency and savings.

In a long term perspective, the initiative envisages to start a process aimed at fostering the changeover to a carbon free economy.

The initiative includes several strategic sub-initiatives for the sustainable development of the Sardinia territory, in particular:

- **Smart City – Comuni in Classe A** (“Smart Cities - Energy efficiency Class A labelled Municipalities”);
- Reconversion of the oil power plant of Porto Torres into a biomass power plant;
- Realisation of the network infrastructure for the gas transmission and distribution in the region connected with the GALSI (Algeria-Sardinia gas interconnector).

SMART City – Comuni in Classe A

The first phase of the Sardegna CO2.0 initiative is called **Smart City – Comuni in Classe A**. This sub-initiative is specifically targeted to cities, considered a key driver to turn the socio-economic system towards environmentally sustainable models.

A total contribution of EUR 39m was allocated by the RAS to the Smart City – Comuni in Classe A, consisting of Sardegna ERDF OP resources, action line 3.1.2b “Promotion, support and carrying out of interventions aimed at reducing CO2 emissions”. The above contribution includes EUR 4m for the communication to stakeholders and the provision of technical assistance for the start-up phase of the Sardinia CO2.0 project.

Local Authorities suitable to develop a sustainable energy plan (at a further step) will be selected via a public tendering procedure and will become “Pioneer communities” (as defined below). Such Pioneer Communities are expected to have characteristics, experience and abilities to achieve project goals during a time set with tangible and positive effects on society.

The following stages are foreseen within the Smart City:

1. public procedure to launch the Smart City- Comuni in Classe A sub-initiative, in the framework of the Sardegna CO2.0;
2. submission of Expressions of Interest and selection of Pioneer Communities: local Authorities will submit an application on line;
3. coaching process for Pioneer Communities via Technical Assistance (as explained below) aimed at facilitating the development of Sustainable Energy Action Plans (“SEAPs”);
4. SEAPs implementation.

On June 30th, 2011, the RAS launched the public procedure (stage 1 above) to identify a restricted number of Municipalities and Local Authorities (**Pioneer communities**) according to a cluster matrix set up on social and technical parameters.

The allocation of JESSICA funds to a single SEAP could not exceed EUR 3m (the threshold can be increased up to EUR 6m when the application is submitted by several Pioneer communities grouped in coalitions).

The Pioneer communities will benefit also of: additional funding from the RAS for paying back the interest expense of loans; non-repayable contribution to the extent of 20% of total costs eligible; and additional non-repayable contribution to a maximum extent of 50% of eligible if the project timing and outcome are aligned with the SEAP.

Applications submitted by Local Authorities (or coalitions of Local Authorities) by September 20th, 2011, will be assessed and then clustered into different groups based on three variables according to a number of economic, geographical and social parameters:

Table 6 Relevant variables and related values for applications’ clustering

Variable	Value
Territorial	Internal
	Coastal
Demographic	Number of inhabitants < 1500
	Number of inhabitants > 1500 and < 5000
	Number of inhabitants > 5000
Relevant economic sector	Agricultural
	Industrial
	Tourist / Service industry

Source: Call for Expression of Interest issued by RAS (<http://www.regione.sardegna.it/smartcity/>)

Twenty Local Authorities (or coalitions of Local Authorities) suitable to develop a sustainable energy plan - **SEAP** - will be selected and become Pioneer communities. The RAS will provide technical assistance to the Pioneer communities under a specific agreement (namely, Memorandum of Understanding).

Technical and administrative assistance to these Pioneer Communities will be provided by Sardegna Ricerche, an in-house company of the RAS, while financial advisory will be provided by SFIRS SpA, the public financial institution in-house body of the RAS.

Technical assistance will be regulated through the signature of a specific agreement between the RAS and the selected Pioneer Communities. Pioneer Communities will be supported in identifying and planning both short-term (1-3 years) actions, medium-term (3-5 years) and long-term (more than 5 years) actions in order to achieve SEAPs' objectives.

Technical and economic advice will be provided on assessment of projects capacity to yield financial returns, on administrative procedures and on financial structuring of projects. In addition, under this initiative the Pioneer communities will benefit of coaching activities for their technical staff: the support will focus on analysis of local community energy consumption, current greenhouse gas (GHG) emissions, existing energy policies, and analysis of potential measures to reduce GHG emissions.

Table 7 SFIRS

SFIRS - Financial Institution in-house organism of the RAS (*Società Finanziaria Regione Sardegna*)

The company has the sole purpose of supporting the RAS in the implementation of plans, programmes and policy for the economic and social development of the Sardinia Region. For these purposes, the Company may perform all acts permitted to financial intermediaries under Articles 106 and 107 of Law n. 385/1993.

SFIRS performs the following activities in support of public or private entity operating in Sardinia Region:

- Provides funding and incentives;
- Promotes and supports public and private entrepreneurial initiatives aimed at achieving the goals of economic and/or social development;
- Provides consulting and corporate finance support in the strategic choices of financing and restructuring;
- Carries out activities aimed at managing real estate assets and securities;
- Provides advice and assistance in dealing with market and regulatory authorities and the banking system;
- Provides advice and assistance in corporate finance transactions;
- Provides advice and assistance in acquisitions, divestitures and valuations of firms;
- Promotes and supports project financing operations;
- Attract private capital for investments with high interest in the region;
- Acquire (with the previous consent of the Sardinia Region) shares in companies already established or to be established, registered and operating in Sardinia, that operates in the implementation of economic development initiatives of general interest.

Pioneer Communities are expected to formally approve their SEAPs, including EE/RE projects, aligned with the criteria of JESSICA (see section 6.3), that shall be financed by the UDF, while other projects will be financed by regional or municipal funds. Specifically, revenue generating projects included in such SEAPs may meet the JESSICA compliant criteria.

SEAPs are expected to be submitted to the RAS within seven months from the signature of the specific agreements above mentioned. After submission, the RAS will proceed to evaluate the SEAPs based on the following evaluation criteria (as specified both in article 13 and Annex 2 of the Call for Expression of Interest):

- internal coherence in terms of proper CO₂ emissions inventory, identified objectives and actions planned to achieve them, and technical-economic sustainability;

- external coherence with the guidelines issued by the European Commission within the set of principles and recommendations engaged in energy and climate action to come on board of the Covenant of Mayors¹¹;
- compliance with the Sardegna ERDF OP measures as well as with other negotiated planning instruments;
- efficiency in terms of cost-benefit ratio, possibility to share and replicate the results achieved, and ability to obtain the best results in reducing CO₂ emissions while minimising public financial contribution;
- compliance with socio-economic and environmental needs expressed by Sardinia territory; and
- sustainability and duration in terms of economic and financial viability, and evaluation of PPPs and project partnerships.

4.1.2 Urban development

As stated in the National Strategic Reference Framework (NSRF)¹², the urban development measures will be implemented coherently with the following minimum evaluation criteria:

- achieving availability of executive management plans integrated with project proposals that concern infrastructural interventions and/or intangible actions aimed at the creation or enhancement of structures that provide public services;
- completing and streamlining strategic and planning initiatives that have already reached high performance and relevant achievements;
- introducing promotional measures to enhance cooperation among networks of small cities, and, when urban areas and territorial systems are addressed, introducing promotional measures for supporting integrated strategies and operational projects among major towns and villages nearby strengthening functional relationships between urban and rural systems, promoting a wider participation of women and disadvantaged categories, also encouraging the social valorization and the setting of “urban welfare”;
- setting up infrastructural interventions aiming at the requalification and the material/physical reorganization of the town, assisting the integration of coherent immaterial actions and striving for innovative urban, social and economic governance formulas capable of creating positive outcomes at townships’ network level.

The Integrated planning tools currently used within the Sardinia territory, coherent with the evaluation criteria defined above, are introduced in the following paragraphs. Projects included in such planning tools are suitable for JESSICA intervention being compliant with the definition of integrated plans for sustainable urban development according to article 44 of (EC) Regulation n. 1083/2006.

Strategic urban planning

Strategic urban planning consists of a participative process involving institutional, socio-economic and territorial partners with the aim to agree and implement a process for territorial development, that is formalised via the preparation of Strategic Plans: Strategic Urban Plans

¹¹ Reference: http://www.eumayors.eu/IMG/pdf/seap_guidelines_en.pdf.

¹² Each Member State prepares a National Strategic Reference Framework (NSRF), coherent with the Community Strategic Guidelines for 2007-2013, in the course of an ongoing dialogue with the Commission. That document defines the strategy chosen by the State and proposes a list of Operational Programmes (OPs) that it plans to implement. The Italian NSRF has been approved by the European commission in 2007 and is available at the following website: <http://www.dps.tesoro.it/qsn/qsn.asp>.

(related to major urban areas) and Strategic Inter-urban Plans (related to networks of small and medium sized cities)¹³.

In Sardinia the planning process started in March 2005 (during the 2000-2006 Structural Funds programming period) and initially involved the metropolitan urban areas of Cagliari and Sassari, and the municipalities of Oristano, Nuoro, Carbonia, Iglesias and Olbia (for a total of 28 urban centres). In November 2007 the process was extended to the municipalities of Sanluri, Villacidro, Tempio, Lanusei, Tortoli and La Maddalena (provincial capitals of the new Sardinia provinces) resulting in a total of 34 municipalities.

Table 8 Strategic Plans in place

Strategic Urban Plans	Strategic Inter-urban Plans
Alghero, Assemini, Cagliari, Capoterra, Carbonia, Castelsardo, Decimomannu, Elmas, Iglesias, La Maddalena, Maracalagonis, Monserrato, Nuoro, Olbia, Oristano, Porto Torres, Pula, Quartu Sant'Elena, Quartucciu, Sanluri, Sarroch, Sassari, Selargius, Sennori, Sestu, Settimo San pietro, Sinnai, Sorso, Stintino, Tempio Pausania, Tortoli, Villacidro, Villa San Pietro.	Suilcis, Nuoro, Oristano, Sassari

Source: <http://www.sardegнатerritorio.it/cittacentrstorici/pianificazionestrategica.html>

The funds allocated to the planning process are originated from various sources: the National Fund for Underused Areas (*Fondo Aree Sottoutilizzate - FAS*) - specifically, the Framework Programme Agreement “Acceleration of spending in urban areas” (*Accordo Programma Quadro “Accelerazione della spesa nelle aree urbane”*) - and the RAS OP 2000-2006 – specifically, measure 5.1 aimed at promoting new practices of governance and planning for urban.

Integrated Urban Development Plans (PISU)

The Sardegna ERDF OP confirmed the relevance of strategic urban planning. Specifically, the implementation strategy defined for the Axis 5 foresees the development of adequate operating tools defined as “tools for the implementation of the Strategic Plans “. Thus, Integrated Plans for Urban Development are those plans that translate urban development strategies set in the Strategic Plans into integrated set of projects, identified through a dialogue among main stakeholders (RAS, municipalities, private partners, citizens). Integrated Plans for Urban Development are defined through a bottom up approach: first, key projects are identified and then Integrated Plans are defined.

The examples of Integrated Plan for Urban Development in place in the Region are: (i) **Integrated Urban Development Plans (PISU)**, created as operational programs in linked to operational objective 5.1 and to Strategic Urban Plans, and (ii) **integrated projects** linked to operational objective 5.2 and to Strategic Inter-urban Plans.

In October 2009 the RAS, with Decision n. 45/5, provided financial support to the aforementioned 34 municipalities that developed their Strategic Plans for the development of feasibility studies and of preliminary design of projects in order to define the PISUs¹⁴.

A financial contribution of about EUR 9,4m was allocated from the RAS to the selection process for the years 2009 - 2012 (about EUR 2,3m yearly). The financial contribution from the RAS could not be higher than the 70% of admissible cost of each proposal; a further contribution (at least the 30% of the total amount foreseen for the project) should be allocated by municipalities interested by the proposals. The financial contribution granted to a single proposal could not be more than EUR 100.000 for the development of feasibility studies and EUR 180.000 for the development of preliminary design of projects. When municipalities ask a contribution for both, the feasibility study and the preliminary design of a single project, the total financial contribution could not exceed EUR 180.000.

¹³ Reference: <http://www.sardegнатerritorio.it/cittacentrstorici/pianificazionestrategica.html>

¹⁴ Reference: <http://www.regione.sardegna.it/j/v/23?s=1&v=9&c=240&c1=355&idscheda=288897>

Whilst no PISU has been finalized yet, a list of initiatives have been identified by the 34 municipalities, some of which, following the awarding of non repayable grants from the RAS, have been or will soon be translated into feasibility studies or preliminary projects.

According to RAS Decision n. 45/5 and related call for expression of interest¹⁵, the projects included in PISU by the local authority concerned will not constitute a “closed list”. However, a project may be included in a PISU only if a strict compliance with identified criteria exists. Such criteria include: positive socio-economic impact; relevance of the financial contribution from the promoter; compliance of the project with both, the ERDF OP objectives and the regional planning strategy; technical-administrative/economic-financial/environmental and managing feasibility; etc.

Call CIVIS

In 2006 the RAS approved with Decision n. 473/CS the call CIVIS aimed at promoting “pilot quality projects” to regenerate historical urban centres. The call was addressed to networks of small cities (at least 5 municipalities, or 3 municipalities with at least 10.000 inhabitants)¹⁶.

330 out of 377 Sardinia municipalities participated in the call, grouped-in 50 coalitions. The RAS OP 2000-2006 - measure 5.1c “Policies for urban areas” - allocated EUR 95m funds to 17 networks of small cities (113 municipalities included).

The Decision n. 29/21, approved by the *Giunta Regionale della Sardegna* (Sardinia Regional Council) in May 2008 (and the following amendment Decision n. 26/3 approved in October 2009), allocated additional EUR 48m - from Sardegna ERDF OP funds (Axis 5 Urban Development, Objective 5.2.1) - to further 12 networks of small cities on the base of the list of selected proposal approved by the call’s Evaluation Committee.

The Call CIVIS is presented as potential integrated plan for sustainable urban development according to Art.44 of Reg 1083/2006 (IPSUDs) for the purpose of the study. However, it was agreed at later stage with the RAS managing authority to initially consider only PISU, as IPSUDs, and hence projects included herein as eligible for financing via JESSICA under Axis 5. The list of the selected proposals¹⁷ should be included in PISU before considering them as “integrated projects” (see section 4.1.2).

4.2 Selection of project proposals suitable as investment opportunities for JESSICA

4.2.1 Analysis of options meeting criteria for speed, simplicity and reliability

According to the analysis carried out in the previous sections (chapter 3 and section 4.1), Sardinia context is characterized by relevant initiatives for urban development (PISUs) and energy efficiency (Smart City- Comuni in Classe A sub-initiative), currently under implementation. Focusing on existing initiatives when identifying projects to be potentially funded with JESSICA funds could make the submission of proposals both easier and less time consuming.

Specifically, investment opportunities for JESSICA-related funds could be initially identified according to the following geographic priorities:

- The urban development strategy could be focused on the 34 municipalities selected for the development of feasibility studies and of preliminary design of projects in order to

¹⁵ <http://www.regione.sardegna.it/j/v/28?s=1&v=9&c=1425&c1=1425&id=17261>.

¹⁶ Reference: <http://www.regione.sardegna.it/j/v/28?s=1&v=9&c=1425&c1=1425&id=3228>

¹⁷ Decision n. 29/21, approved by the *Giunta Regionale della Sardegna* (Sardinia Regional Council) in May 2008 (and the following amendment Decision n. 26/3 approved in October 2009).

define their PISUs (section 4.1.2), and then enlarged to the remaining Sardinia territory¹⁸;

- The urban energy efficiency strategy could focus on the Pioneer Communities selected under the Smart City – Comuni in Classe A sub-initiative expected to formally approve SEAPs (section 4.1.1). At a later stage the possibility to expand the geographical coverage of intervention should be investigated taking into account residual funds available.

4.2.2 Potential beneficiaries of JESSICA fund(s)

Taking into account the nature and the sources of JESSICA funds, beneficiaries of UDF(s) investment will be those targeted in the relevant Axes 3 and 5 of the ERDF OP in accordance with the relevant selection and eligibility criteria defined by the OP Monitoring Committee (sections 3.1). As such, potential beneficiaries are:

- Sardinian Local Authorities (including their in-house agencies),
- Energy Agencies,
- Public and private enterprises,
- Universities,
- Research Centres,
- Private sector associations,
- Non-profit organisation of social utility (*Organizzazione non lucrativa di utilità sociale* – ONLUS).

Moreover, given that involvement of private sectors is envisaged in order to enhance financial leverage of projects to be financed, private stakeholders should be involved throughout the whole JESSICA implementation process.

The intention to proceed with speed, simplicity and reliability as suggested above, can be pursued by proceeding with two different time schedules:

- **Phase 1.** Priority is given to proposals submitted by beneficiaries that belong to
 - the 34 municipalities involved under the urban development strategy,
 - the Pioneer Communities identified under the Smart City – Comuni in Classe A sub-initiative;
- **Phase 2.** All the municipalities or other Local Authorities that developed Strategic Plans, and a SEAP, can be potentially eligible to receive JESSICA fund(s).

4.2.3 Key criteria to identify and prioritise projects to leverage additional in-kind or cash funds, to achieve financial sustainability

In order to identify and prioritise projects based on their financial sustainability the following main criteria could be adopted:

- Investment amount;

¹⁸ The initial resources contributed to the UDF will be targeted to the 34 municipalities in the context of Axis 5. It is not excluded however that should the UDF end up with additional resources these may be invested in territories not initially targeted, provided that these territories have developed suitable integrated plans in accordance with Art.44. This is in line with the general objective of the Axis 5 which "by tackling internal development disparities and improving living standards and the quality of life in urban and disadvantaged areas" goes beyond a very narrow definition of urban areas.

- revenue-generation capacity;
- Expected return on the investment (e.g.: target IRR¹⁹);
- Implementation stage (priority to initiatives in an advanced feasibility phase);
- Involvement of private partners;
- Interest expressed by promoters in taking part to the JESSICA initiative;
- Potential economic and social benefits (e.g. target ERR²⁰).

Moreover, during the identification and prioritisation process, specific provisions²¹ on the treatment of particular Sardinia territorial characteristic identified in the ERDF OP should be carefully considered (i.e. strengthening economic growth, the rehabilitation of the physical environment, brown field redevelopment, the preservation and development of natural and cultural heritage, the promotion of entrepreneurship, local employment and community development, and the provision of services to the population taking account of changing demographic structures).

4.2.4 How reshape/group existing projects for the JESSICA mechanism

Local development initiatives often experience difficulties in finding sources of financing from the private sector, due to the perspective of high risks against low return on investment. JESSICA could provide projects with the financial resources to emerge as bankable investments, replacing subsidies by long term loans or subordinated loans in the funding structure of the projects. That allows a reduction of risks, thus attracting private developers and other investors to co-finance the operation. The JESSICA mechanism:

- consists of *ad-hoc* re-shaping²² and aggregation of projects with null or lower profitability, that generate high or medium socio-economic benefits (null or low IRR-high or medium ERR), with high profitability projects (high or medium IRR) could improve the financial viability of projects that were initially supposed to be funded only via public non repayable grants;
- has a positive effect on interest rates²³ in that it reduces the cost of funding the projects, thus lowering the cost of financing compared to a commercial loan.

As a matter of fact, the application of JESSICA instruments would decrease the amount of public funds needed to realize such projects, thus allowing to diverting public funds in order to support through non-repayable public grants and through interest subsidy schemes those projects that, due to the low profitability, may, otherwise, not be attractive from a private perspective²⁴. Indeed, as specified in the COCOF note 10-0014-05-EN (Guidance Note on Financial Engineering Instruments under Article 44 of Council Regulation (EC) No 1083/2006):

¹⁹ IRR = internal rate of return. The discount rate often used in capital budgeting that makes the net present value of all cash flows from a particular project equal to zero.

²⁰ ERR = economic rate of return. The discount rate often used in capital budgeting that makes the net present value of all cash flows from a particular project equal to zero. ERR differs from the financial rate of return in that it takes into account the effects of factors such as price controls, subsidies, and tax breaks to compute the actual cost the project to the economy.

²¹ See Art. 8 of the Council Regulation (EC) n° 1080/2006.

²² projects with null or lower profitability could be combined with high profitability projects (for instance through consolidated cash flows) to obtain a new integrated investment commercially viable for public and private investors.

²³ If applicable compliance with the state aid rules must be ensured

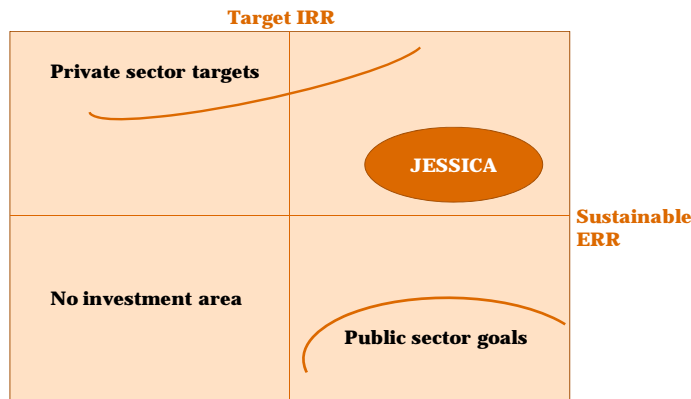
²⁴ If applicable compliance with the state aid rules must be ensured

1. "Final recipients" may be simultaneously supported by (i) grants from the Structural Funds or from the Cohesion Fund and (ii) investments from financial engineering instruments co-financed with Structural Funds." In this case, the two streams of funding fall under separate operations (Point 3.1.2 of the COCOF note);
2. Interest rate subsidies, guarantee fee subsidies and equivalent measures can be considered to be a part of the financial engineering instrument and of the repayable investment, ...only when associated and combined with ERDF loans or guarantees in a single financing package" (point 4.3.1 of the COCOF note).

The result would be a larger number of projects of public interest to be potentially financed.

Figure below provides an example of how private and public perspective should be combined to benefit from the JESSICA mechanism:

Figure 3 Private and public perspective



Existing projects, compliant with the RAS strategy and planning framework (as identified in section 4.1) can be screened (i) to exclude those projects already awarded with – and fully funded by- non-repayable grant funding under Sardegna ERDF OP , in order to not to affect already established development strategies set by cities/provinces in agreement with the RAS, and (ii) to include all projects potentially viable that also foresee the involvement of private investors.

The resulting list of projects can be then analysed by applying the JESSICA mechanism and reshaping projects in order to optimise the use of public subsidies while maximising the benefits for all stakeholders involved (including private investors), taking carefully into consideration the limits set by the State Aid rule, where applicable (see Appendix 1: Legal and regulatory aspects of JESSICA implementation).

5 Identification of a pipeline of eligible projects for JESSICA

In order to assess the size of the funds that can be contributed by the RAS to JESSICA e financial instruments to ensure a quick spending of resources, an analysis of existing projects, and their eligibility under JESSICA, was performed on the basis of information provided by relevant stakeholders (e.g. Sardinian municipalities and provinces).

5.1 Stakeholders' consultation process

The stakeholders' consultation process started at the beginning of June 2011. The activities carried out were aimed at promoting JESSICA knowledge among territorial stakeholders and at the same time analysing existing projects/initiatives that could be potentially funded by future UDF(s).

Specifically, the process included:

- Coordination meetings held with the RAS aimed at organising technical meetings with local stakeholders interested in JESSICA initiative and gathering specific information on integrated planning procedures;
- Technical meetings with local stakeholders aimed at providing in-depth understanding of JESSICA initiative and collect information on existing projects (project ideas, feasibility studies, preliminary/definitive/executive projects), organised in forms of
 - Workshops,
 - Face-to-face meetings;
- Follow-up calls organised on an *ad-hoc* basis in order to provide further explanations on the JESSICA initiative in Sardinia, as necessary.

5.2 Methodology for the identification of eligible projects

In order to identify a pipeline of JESSICA projects, existing projects were analysed against the requirements of the JESSICA initiative, namely:

- capability to generate revenues; and
- eligibility of project expenditures under ERDF Regulation²⁵.

Based on the above criteria, the following main categories of projects can be identified:

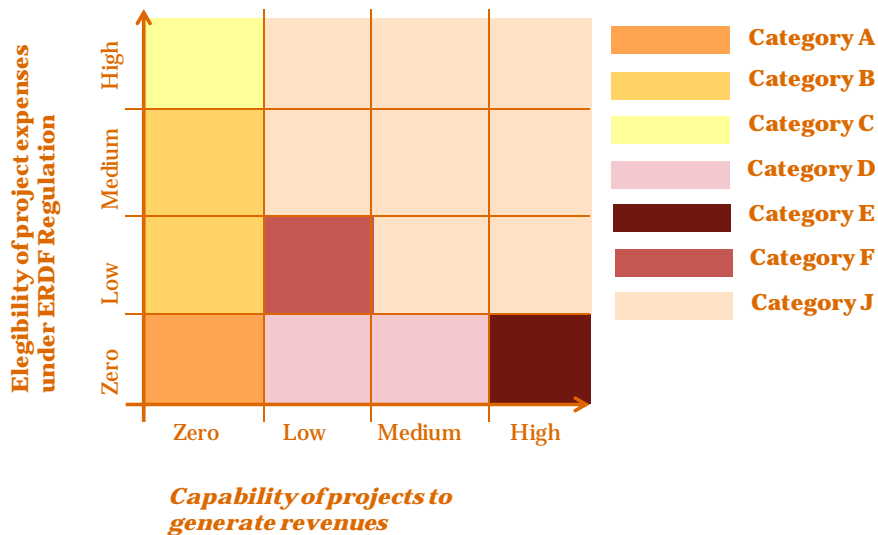
- **Category A:** projects to be entirely funded with non repayable public grants (national, regional and/or local) other than Sardegna ERDF OP resources;

²⁵ namely, (EC) Regulation 1828/2006.

- **Category B:** projects suitable for funding with non repayable public grants either from Sardegna ERDF OP and/or public (national, regional and/or local) funds;
- **Category C:** projects suitable to be entirely funded with Sardegna ERDF OP non repayable public grants;
- **Category D:** projects to be funded with both public (national, regional and/or local) and private funds;
- **Category E:** projects to be entirely funded with private funds;
- **Category F:** projects to be funded with (i) public (national, regional and/or local) funds, (ii) private funds, and (iii) Sardegna ERDF OP non repayable public grants; and
- **Category J:** projects potentially suitable for financing through JESSICA using Sardegna ERDF OP funds in a revolving manner.

The “JESSICA map” reported below illustrates each category:

Figure 4 “JESSICA map”



The projects to be evaluated can be placed in the “JESSICA map” as follows:

- **Capability of projects to generate revenues.** Due to the limited and not homogeneous information available on projects, profitability was judged against the scale zero, low, medium, high, where:
 - **Zero profitability** is assigned to urban equipment and fittings, to projects aimed at improving mobility and circulation, and to interventions aimed at enhancing social inclusion and/or public security;
 - **Low profitability** is assigned to the refurbishment of squares and piazzas (due to the possibility of envisaging the installation of commercial activities, such as newspaper stands), of historical buildings (when combined with low revenue-generating commercial activities, such as public art galleries or libraries), of historical city centres, to the recovery of the environmental heritage and protection of historical-cultural territorial characteristics, and to intervention aimed at rationalising the public transport system;
 - **Medium profitability** is assigned to the refurbishment of historical buildings (when combined with potentially profitable commercial activities, such as cinemas

or theatres), to leisure and sport centres, to the refurbishment of squares associated with the construction of underground parking;

- **High profitability** is assigned to interventions related to the development of intermodal transport, and to the construction of multifunctional centres devoted to commercial activities and other public services.
- **Eligibility of project expenditures under Structural Funds.** The parameter used was the amount of investment potentially eligible for Sardegna ERDF OP contribution compared with the total amount of investment. Projects can be assessed against the scale **zero** (0%), **low** (> 0% <= 30%), **medium** (> 30% <= 70%), **high** (> 70%). All projects assessed, with the exception of those related to energy sector, have been ranked high since they were designed to be almost entirely eligible for support by ERDF funds.

Generally speaking, the identification of JESSICA eligible existing projects should be scrutinized in compliance with the eligibility expenditure foreseen by the ERDF Regulation EC n. 1080/2006 and the National Eligibility Rule (DPR 3 October 2008, n. 196). However, at this stage, the eligibility of EE/RE (section 5.2.1) and Urban development (section 5.2.2) projects' expenditure was evaluated in terms of general compliance of the initiatives with the operational objectives of Axes 3 and 5 of the ERDF OP, due to the absence of detailed project information. Eligibility constraints, including the 10% limitation on the purchase of land, will be strictly verified once the projects are considered for funding by the UDF(s) rather than indicated as possible candidates.

Ad-hoc re-shaping and aggregation of projects could enlarge the scope of application of JESSICA instruments to a larger number of projects.

The following paragraphs show the results of the analysis of existing projects based on the information provided by the stakeholders.

5.2.1 EE/RE projects

Project information related to EE/RE projects, coherent with the main objectives of Axis 3, was provided only by the Province of Olbia-Tempio.

This relatively unsatisfactory result is due to the very early stage of the Smart City- Comuni in Classe A sub-initiative. As already specified, the initiative is aimed at supporting Local Authorities for the development and implementation of SEAPs. SEAPs are considered suitable as integrated plans for sustainable urban development for EE/RE urban projects. Currently²⁶, no SEAP has been defined. According to the procedure set-up by the RAS (section 4.1.1), preliminary SEAPs shall be ready on February/March 2012. Thanks to the technical assistance which will be provided to Local Authorities, it is expected that part of the projects included in the SEAPs will meet the criteria for financing under JESSICA.

As at today, project information provided is limited and heterogeneous, thus it was not possible to perform any quantitative analysis. Projects were hence analysed from a qualitative perspective.

In order to provide a consistent analysis, projects were assessed against the qualitative criteria of the JESSICA map. Information and results are shown table 9 below. Graphical representation of results is provided in Figure 5:

²⁶ August 2011

Table 9 Energy project proposals to be potentially funded by JESSICA fund(s)

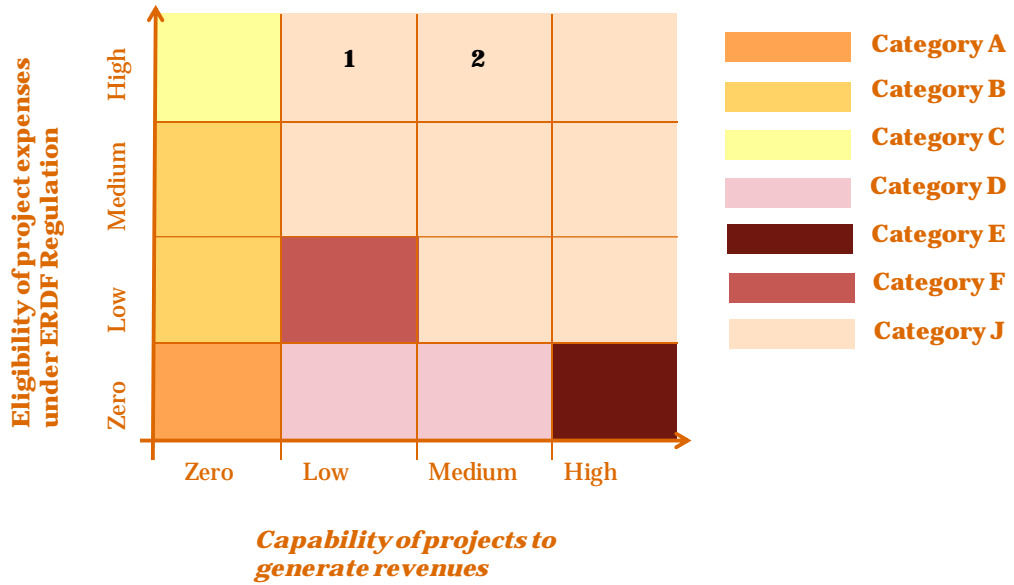
Project information								Project amount				Other information		Eligibility for JESSICA ²⁷	
ID	Promoter	Project title	Location	PISU (Yes/No)	Project Description	Sardegna ERDF OP Axis/operational objective	Notes	ERDF contribution	Other public contribution	Private contribution	Total amount	Project level	PPP	Capability to generate revenues	Eligibility of expenses under ERDF
1	Province of Olbia-Tempio	Interventions aimed at upgrading the road network of the province.	The whole territory of the province		The intervention consists of extraordinary maintenance on the road network of the province through the provision of lighting of intersections from renewable sources.	3.1.1 3.1.2	Timing: 31/05/2011 End: 30/09/2012				EUR 8m	Feasibility study	No	M	H
2	Province of Olbia-Tempio	Interventions aimed at upgrading the road network of the province.	The whole territory of the province		The intervention consists of the realisation of equipment for electric energy production by renewable sources to be employed on road fixtures.	3.1.1 3.1.2					EUR 3m			M	H

²⁷ H: High; M: Medium; L: Low

Project information								Project amount				Other information		Eligibility for JESSICA ²⁷	
ID	Promoter	Project title	Location	PISU (Yes/No)	Project Description	Sardegna ERDF OP Axis/operational objective	Notes	ERDF contribution	Other public contribution	Private contribution	Total amount	Project level	PPP	Capability to generate revenues	Eligibility of expenses under ERDF
3	Province of Olbia-Tempio	Improvement (in terms of energy efficiency) of the school buildings owned by the Province	The whole territory of the province		The intervention consists of the improvement (in terms of energy efficiency) of the school buildings owned by the Province, through upgrading of fastenings, outside coating, and plants for energy production by renewable sources.	3.1.1 3.1.2					EUR 20m			L	H

Source: data/information provided by Sardinia stakeholders

Figure 5 Energy interventions' distribution in the JESSICA map*



Based on available data, the three proposed projects might be eligible for JESSICA. The total investment costs amount to about EUR 31m (eligible investment costs under Sardegna ERDF OP were not indicated).

During the *face-to-face* meeting with the Province of Sassari, the following initiative was also presented:

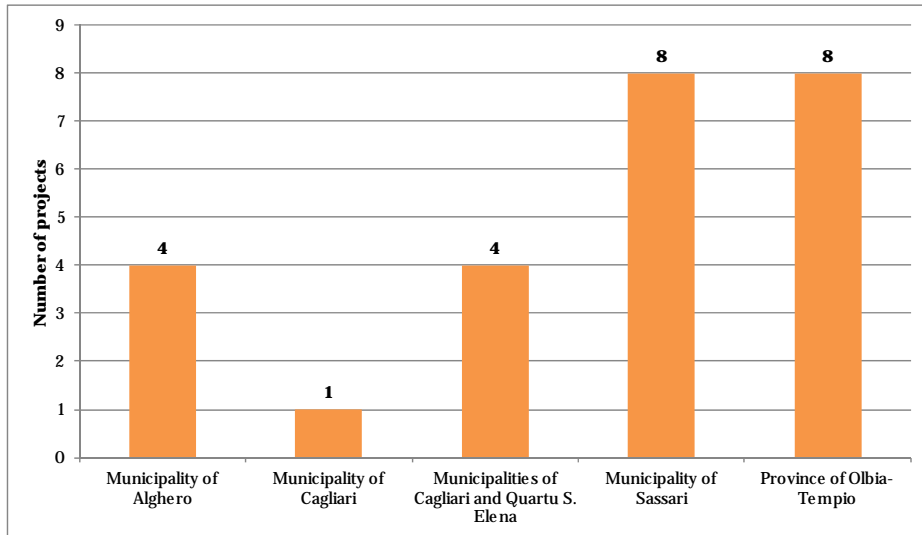
- Realisation of projects aimed at improving the energy consumption of educational buildings: the Province has recently funded the realization of energy efficiency interventions on three schools. This kind of intervention could be replicated in additional 140 schools. JESSICA instruments could be used to finance the implementation of investments in educational buildings involving partnerships with Energy Service Companies (ESCOs)²⁸, as well as other private providers of energy efficiency and renewable energy services. The general objective is to facilitate access of private providers of energy efficiency and renewable energy services to appropriate financing sources, including equity.

5.2.2 Urban development projects

Five Local Authorities provided information on 25 urban development projects, for a total investment amount of about EUR 252,8m. Figures 6 and 7 below provide a summary overview of the number of projects submitted by Sardinia Local Authorities (municipalities and / or provinces) and related value (the total amount is divided by Local Authority and showed in percentage).

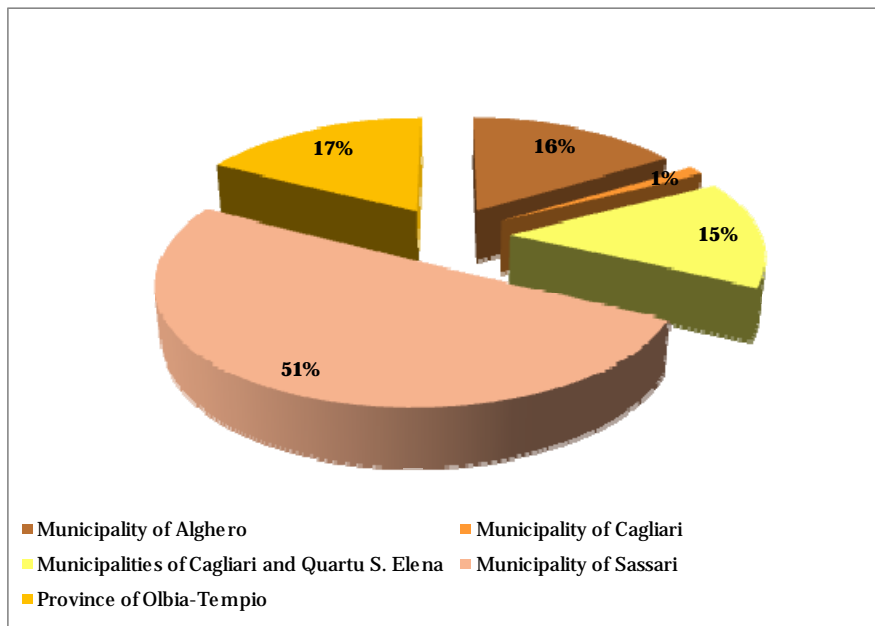
²⁸ ESCOs deliver energy efficiency improvements, accepting financial risk by covering – or helping to finance - upfront investment costs and refinancing this through the savings achieved. They can help public authorities upgrade buildings by grouping them into scalable projects under energy performance contracts.

Figure 6 Number of projects by Local Authority



Source: PwC analysis based on data provided by Sardinia stakeholders

Figure 7 Value of projects (total amount) by Local Authority (%)



Source: PwC analysis based on data provided by Sardinia stakeholders

Project information provided is limited and heterogeneous, thus it was not possible to perform any quantitative analysis. Projects were analysed from a qualitative perspective. In order to provide a consistent analysis, projects were assessed against the qualitative criteria of the JESSICA map. Information and results are shown table 10 below. Graphical representation of results is provided in Figure 8.

Table 10 Urban development project proposals to be potentially funded by JESSICA fund(s)

Project information								Project amount				Other information		Eligibility for JESSICA ²⁹	
ID	Promoter	Project title	Location	PISU (Yes/No)	Project Description	Sardegna ERDF OP Axis/operational objective	Notes	ERDF contribution	Other public contribution	Private contribution	Total amount	Project level	PPP	Capability to generate revenues	Eligibility of expenses under ERDF
1	Municipality of ALGHERO	Alghero Gate: Intermodal hub of Alghero (<i>Polo intermodale della città di Alghero</i>)	City of Alghero (final location will be identified in the feasibility study)	Yes	The intervention aims at carrying out both an intermodal hub and a system of services supporting the urban and territorial mobility system. The main goal consists of integrating the public transport system by rail, and by road, and the private transport. The hub should allow convergence between extra-urban rail and road transport; and will be supplied with a parking area connected to the urban transport system (LPT, main roads, bike tracks), where complementary services could also be found (i.e.: bike sharing, car sharing, car/bike/motorcycle rent).	5.1.1	The project obtained public funding through the call for proposal for feasibility studies and preliminary projects of interventions included in Strategic Plans (introduced by Regional Law n. 3/2009 and Regional Decision n. 45/5 of October 2009)	n.a.	n.a.	n.a.	About EUR 8m	Project idea	The possibility of adopting PPP schemes will be investigated in the feasibility study	L	H

²⁹ H: High; M: Medium; L: Low

Project information								Project amount				Other information		Eligibility for JESSICA ²⁹	
ID	Promoter	Project title	Location	PISU (Yes/No)	Project Description	Sardegna ERDF OP Axis/operational objective	Notes	ERDF contribution	Other public contribution	Private contribution	Total amount	Project level	PPP	Capability to generate revenues	Eligibility of expenses under ERDF
2	Municipality of ALGHERO	Alghero Creativity Urban creativity system: regeneration of two buildings: "ex Cotonificio" and "ex Caserma"	City of Alghero: - building "ex Cotonificio": peripheral area (lack of green areas and meeting spaces); - building "ex Caserma": historical centre	Yes	The intervention aims at implementing an urban system consisting of structures identifying the "Creativity District" through the regeneration of the two buildings "ex Cotonificio" and "ex Caserma". The two buildings will become, respectively a socio-cultural meeting centre for young people, and a Didactic centre for Fashion design.	5.1.2 5.1.3	The project obtained public funding through the call for proposal for feasibility studies and preliminary projects of interventions included in Strategic Plans (introduced by Regional Law n. 3/2009 and Regional Decision n. 45/5 of October 2009)	n.a.	n.a.	n.a.	About EUR 15m (EUR 10m for the building ex Cotonificio and EUR 5m for the ex Caserma)	Project idea	The possibility of adopting PPP schemes will be investigated in the feasibility study	L	H

Project information								Project amount				Other information		Eligibility for JESSICA ²⁹	
ID	Promoter	Project title	Location	PISU (Yes/No)	Project Description	Sardegna ERDF OP Axis/operational objective	Notes	ERDF contribution	Other public contribution	Private contribution	Total amount	Project level	PPP	Capability to generate revenues	Eligibility of expenses under ERDF
3	Municipality of ALGHERO	Pilot Quality Project dedicated to the tourist regeneration of the coastal suburb of <i>Fertilia - Città di fondazione</i>	City of Alghero Suburb of <i>Fertilia</i>	Yes	The intervention aims at finalising a PISU with the following key objectives: regeneration of historical buildings and related public spaces in the urban area through material and intangible actions (the possibility to adopt PPP is also indicated). The intervention should improve socio-economic conditions of the suburb of <i>Fertilia</i> through a set of actions mainly focused on cultural and cinematographic topics.	5.1.2 5.1.3 5.1.6	With Regional Decision n.28/3 of 16.5.2008 the suburb of <i>Fertilia</i> has been identified as a key area to promote tourist regeneration and territorial marketing interventions in historical centres next to the sea. On November 2008, the municipality of Alghero signed a Framework Agreement with the RAS defining key guidelines for territorial development and related actions to be implemented.	n.a.	EUR 2m of R.A.S funds (Fin. Law 2011)	EUR 8,7m	EUR 10,7m	Preliminary project	The PISU indicates the involvement of private actors (contribution of EUR 8,7m). The public partner should provide a real estate facility in order to allow the regeneration of public buildings and the funding of intangible actions	M	H

Project information								Project amount				Other information		Eligibility for JESSICA ²⁹	
ID	Promoter	Project title	Location	PISU (Yes/No)	Project Description	Sardegna ERDF OP Axis/operational objective	Notes	ERDF contribution	Other public contribution	Private contribution	Total amount	Project level	PPP	Capability to generate revenues	Eligibility of expenses under ERDF
4	Municipality of ALGHERO	Parking basement under Square Mercede	City of Alghero - Square Mercede	No	The intervention will consist of a parking basement with 294 car parking spaces, of which 252 for rotation and 36 boxes (30 single and 6 double ones), to be realised on 3 levels. The area affected by the intervention consists of about 3.000 sqm for each level. The car park will be consistent with the square design.	5.1.1	-	n.a.	n.a.	n.a.	EUR 7,2m	Preliminary project	Project financing	M	H
5	Municipality of SASSARI	"Doors of the network city" ("Porte della città rete"). Intermunicipal system of Heliports	Municipalities of Sassari, Alghero, Porto Torres, Sorso, Sennori, Stintino and Castelsardo.	Yes	The intervention aims at improving quality of life for citizens in the metropolitan urban area of Sassari ("Area Vasta"), through enhancement of mobility system, improvement in environmental protection, and realisation of a helicopter emergency medical centre. Activities: implementation of heliport infrastructures; setting up of a helicopter emergency medical centre; introduction of air transport by helicopter. Specifically, the intervention foresees 6 heliports located in Alghero, Stintino, Sassari, Portotorres, Castelsardo,	5.1.1	The project obtained public funding through the call for proposal for feasibility studies and preliminary projects of interventions included in Strategic Plans (introduced by Regional Law n. 3/2009 and Regional Decision n. 45/5 of October 2009)	n.a.	n.a.	n.a.	n.a.	Project idea	The possibility of adopting PPP schemes will be investigated in the feasibility study	L	H

Project information								Project amount				Other information		Eligibility for JESSICA ²⁹	
ID	Promoter	Project title	Location	PISU (Yes/No)	Project Description	Sardegna ERDF OP Axis/operational objective	Notes	ERDF contribution	Other public contribution	Private contribution	Total amount	Project level	PPP	Capability to generate revenues	Eligibility of expenses under ERDF
					Sennori and Sorso.										
6	Municipality of SASSARI	"Doors of the network city" ("Porte della città rete"). Intermunicipal system of parkings and sustainable mobility	Municipalities of Sassari, Alghero, Porto Torres, Sennori, Stintino and Castelsardo.	Yes	The intervention consists of a parking (for stop and/or interchange) system easily accessible from the road transport network. Parking areas should be located next to the entries of urban areas, supplied with interchange connections (i.e.: shuttle services, minibus or electric vehicles). Moreover, a road link with the SS 200 is planned to enhance connection between Sorso and Sennori.	5.1.1	The project obtained public funding through the call for proposal for feasibility studies and preliminary projects of interventions included in Strategic Plans (introduced by Regional Law n. 3/2009 and Regional Decision n. 45/5 of October 2009).	n.a.	n.a.	n.a.	n.a.	Project idea	The possibility of adopting PPP schemes will be investigated in the feasibility study	L	H

Project information								Project amount				Other information		Eligibility for JESSICA ²⁹	
ID	Promoter	Project title	Location	PISU (Yes/No)	Project Description	Sardegna ERDF OP Axis/operational objective	Notes	ERDF contribution	Other public contribution	Private contribution	Total amount	Project level	PPP	Capability to generate revenues	Eligibility of expenses under ERDF
7	Municipality of SASSARI	"The Green Street". Park multifunctional system of the Eba Giara – Rosello Valley	Eba Giara - Rosello Valley (Sassari)	Yes	The integrated project consists of the implementation of a multifunctional urban park connected with the environmental urban system of Sassari. The park should represent the first component of a system of green streets, including parks, gardens and valleys to be interconnected and improved. Extra-urban areas will also be connected, such as the Solidarity Park and the Pinewood of Platamona. Moreover, a didactic factory is expected to be realised in the higher part of the park, using structures and areas owned by the municipality.	5.1.2 (Axis 3, 4 and 6 are also relevant)	The project obtained public funding through the call for proposal for feasibility studies and preliminary projects of interventions included in Strategic Plans (introduced by Regional Law n. 3/2009 and Regional Decision n. 45/5). FAS funds could also be allocated to the project.	EUR 15m	n.a.	n.a.	EUR 30m	Project idea (Financial coverage approved for finalising the preliminary project)	Yes (PPP) The park management could be granted to the private partner through the Concession of Services instrument (ex art. 3 Legislative Decree n. 163 of April 2006).	L	H
8	Municipality of SASSARI	Urban regeneration of the historical centre – San Donato area	San Donato area, square S. Antonio (Sassari)	Yes	Recovery and regeneration of the urban area of San Donato located in the historical city centre. The area is characterised by a large market area under restructuring, a car park already finalised, and a building to be recovered (ex <i>Turritania</i>).	5.1.1 5.1.2 5.1.3 5.1.4 5.1.5 5.1.6 (Axis 3, 4 and 6 are also relevant)	The project obtained public funding through the call for proposal for feasibility studies and preliminary projects of interventions	EUR 15m	n.a.	n.a.	EUR 30m	Project idea (Financial coverage approved for finalising the preliminary project)	Yes A feasibility study has been commissioned to verify the possibility for an Urban	M	H

Project information								Project amount				Other information		Eligibility for JESSICA ²⁹	
ID	Promoter	Project title	Location	PISU (Yes/No)	Project Description	Sardegna ERDF OP Axis/ operational objective	Notes	ERDF contribution	Other public contribution	Private contribution	Total amount	Project level	PPP	Capability to generate revenues	Eligibility of expenses under ERDF
					Moreover, the urban area is affected by a project idea for realising a "Widespread Hotel" (<i>"Albergo Diffuso"</i>) and by other relevant real estate investments.		included in Strategic Plans (introduced by Regional Law n. 3/2009 and Regional Decision n. 45/5 of October 2009). FAS funds could also be allocated to the project.						Transformation Company (STU) in the city centre (also applicable to project 9).		
9	Municipality of SASSARI	Regeneration of "Santa Maria di Pisa" area	"Santa Maria di Pisa" area (Sassari)	Ref.: Regional Law 5/2009 (art.5) ³⁰	The project consists of the regeneration of "Santa Maria di Pisa" area, next to the coast. Different interventions (together with the completion of a surface urban transport service) could be realised and integrated such as the implementation of a University Campus. Moreover, a Multiplex and a Sport Centre Multisala are also planned.	Axis 5 (Axis 3, 4 and 6 are also relevant)	A financial contribution has been approved in order to manage a call for project ideas – Regional Decision n. 47/16 of 0 December 2010). Public funds available for feasibility studies and	EUR 20m	n.a.	n.a.	EUR 40m	Project idea	Yes	M	H

³⁰Project included in the project dossier of funds to be allocated under Regional Law 5/2009 (art.5).

Project information								Project amount				Other information		Eligibility for JESSICA ²⁹	
ID	Promoter	Project title	Location	PISU (Yes/No)	Project Description	Sardegna ERDF OP Axis/operational objective	Notes	ERDF contribution	Other public contribution	Private contribution	Total amount	Project level	PPP	Capability to generate revenues	Eligibility of expenses under ERDF
							preliminary projects of interventions (introduced by Regional Law n. 5/2009), and FAS funds could also be allocated to the project.								
10	Municipality of SASSARI	Regeneration of "ex-Cinema Astra" area	"San Giuseppe" area (Sassari)	Ref.: Regional Law 5/2009 (art.5) ⁷	The project consists of the restyling of square and road network; and the construction of a car park next to the "ex Cinema Astra" (already renovated). The building will be managed as cultural centre as well as development centre for congress tourism.	n.a.	-	n.a.	n.a.	n.a.	EUR 4m (for square, viability and parking) + EUR 3m already allocated to the Cinema Astra	Feasibility study / Preliminary project	Yes (Project Finance)	M	H

Project information								Project amount				Other information		Eligibility for JESSICA ²⁹	
ID	Promoter	Project title	Location	PISU (Yes/No)	Project Description	Sardegna ERDF OP Axis/operational objective	Notes	ERDF contribution	Other public contribution	Private contribution	Total amount	Project level	PPP	Capability to generate revenues	Eligibility of expenses under ERDF
11	Municipality of SASSARI	Regeneration of "Carbonazzi" area	Carbonazzi area (Sassari)	To be drafted	The project consists of the restyling of the square; the implementation of a Commercial/Office centre; the building of a crèche; and the construction of a car park. A building for social housing is currently under construction.	n.a.	-	n.a.	n.a.	n.a.	EUR 11m (of which EUR 8m already allocated to the building)	Feasibility study / Preliminary project	Yes (Project Finance)	H	H
12	Municipality of SASSARI	Regeneration of Livorno Street	Street Livorno (Sassari)	To be drafted	The project consists of the regeneration of the street and the construction of a car park.	n.a.	-	n.a.	n.a.	n.a.	EUR 10m	Feasibility study	Yes (Project Finance)	M	H
13	Municipalities of CAGLIARI and QUARTU S. ELENA	Environmental protection of the "ex Saline di Stato di Molentargius" area	Cagliari and Quartu Sant'Elena (PNR Molentargius-Saline)	Ref.: Regional Law 5/2009 (art.5) ⁷	The project mainly consists of several interventions aimed at enabling the functional recovery of levees, of drains and of backwater tanks located in the "Bellarosa Maggiore" area. These interventions would improve the functioning of the water supply system.	4.1.1 4.1.2 4.1.3 4.2.1 4.2.2 4.2.4 5.1.2 5.1.6	Financial contribution is expected from Regional Law n.5/2009 (art.5). Promoter: Consortium PNR Molentargius	-	EUR 12,7m (R. Law 5/09)	EUR 3,7m	EUR 16,4m	Feasibility study (1° Lot)	-	L	H

Project information								Project amount				Other information		Eligibility for JESSICA ²⁹	
ID	Promoter	Project title	Location	PISU (Yes/No)	Project Description	Sardegna ERDF OP Axis/operational objective	Notes	ERDF contribution	Other public contribution	Private contribution	Total amount	Project level	PPP	Capability to generate revenues	Eligibility of expenses under ERDF
							Saline. Timing ³¹ : 49 months.								
14	Municipalities of CAGLIARI and QUARTU S. ELENA	Regeneration of a building located in <i>Palamontis</i> area and of backwater tanks in order to realize a spa.	Cagliari and Quartu Sant'Elena (PNR <i>Molentargius-Saline</i>)	Ref.: Regional Law 5/2009 (art.5) ⁷	The project consists of the setting-up of a spa to be located in an existing building, next to backwater tanks. The identified building is located within a wider area to be recovered including tanks, marquees, etc.	4.1.3 4.2.1 4.2.2 4.2.4 5.1.2 5.1.5 5.1.6 6.2.3	Financial contribution is expected from Regional Law n.5/2009 (art.5). Promoter: <i>Consortium PNR Molentargius Saline</i> . Timing ⁸ : 39 months.	-	EUR 1m (R. Law 5/09)	EUR 7m	EUR 8m	Project idea	-	L	H

³¹ Timing: expected working program in terms of months/days needed to completion from the planning stage to the project closure.

Project information								Project amount				Other information		Eligibility for JESSICA ²⁹	
ID	Promoter	Project title	Location	PISU (Yes/No)	Project Description	Sardegna ERDF OP Axis/operational objective	Notes	ERDF contribution	Other public contribution	Private contribution	Total amount	Project level	PPP	Capability to generate revenues	Eligibility of expenses under ERDF
15	Municipalities of CAGLIARI and QUARTU S. ELENA	Recovery of buildings ex-Sali Potassici, ex-Capannoni Scalo, and ex-Magazzini	Cagliari and Quartu Sant'Elena (PNR Molentargius-Saline)	Ref.: Regional Law 5/2009 (art.5) ⁷	The project consists of the making safe and regeneration of three ex-industrial buildings in order to realize the following centres: - Sport centre - Museums - Environmental library and merchandising	4.1.3 4.2.1 4.2.2 4.2.3 4.2.4 5.1.2 5.1.5 5.1.6 6.2.3	Financial contribution is expected from Regional Law n.5/2009 (art.5). Promoter: Consortium PNR Molentargius Saline. Timing ⁸ : 35 months.	-	EUR 2m	EUR 4,8m	EUR 6,8m	Project idea	-	L	H
16	Municipalities of CAGLIARI and QUARTU S. ELENA	Expropriation and acquisition as capital assets of waste land in order to support agriculture	Cagliari and Quartu Sant'Elena (PNR Molentargius-Saline)	Ref.: Regional Law 5/2009 (art.5) ⁷	The project consists of the expropriation of private waste land (100-150 ha) within the "Piana di Is Arenas" area to be potentially converted into agricultural land. Part of this land could be also used for sport and tourist activities through the setting-up of a network of "green paths", cycle tracks and "horse paths".	4.1.1 4.1.2 4.1.3 4.2.1 4.2.2 4.2.4 5.1.2 5.1.6	Financial contribution is expected from Regional Law n.5/2009 (art.5). Promoter: Consortium PNR Molentargius Saline. Timing ⁸ : 34 months.	-	EUR 4,3m	EUR 1,5m	EUR 5,8m	Project idea	-	L	H

Project information								Project amount				Other information		Eligibility for JESSICA ²⁹	
ID	Promoter	Project title	Location	PISU (Yes/No)	Project Description	Sardegna ERDF OP Axis/operational objective	Notes	ERDF contribution	Other public contribution	Private contribution	Total amount	Project level	PPP	Capability to generate revenues	Eligibility of expenses under ERDF
17	Municipality of CAGLIARI	Natural Campus of Cagliari	Historical areas of Cagliari (Castello, Stampace alto, Marina)	Ref.: Regional Law 5/2009 (art.5) ⁷	The project consists of the recovery and the development of disused buildings located in historical urban areas in order to set-up an accommodation network both for students during the academic year, and for tourists six-monthly.	n.a.	Financial contribution is expected from Regional Law n.5/2009 (art.5). Timing ⁸ : 485 days.	n.a.	n.a.	n.a.	EUR 3m	Feasibility project	-	M	H
18	Province of Olbia-Tempio	Gallura Nautical System (GNS)	Ex area Sep (Servizio di Escavazione e Porti) Industrial area of the Province: 17000 sqm with direct access to the sea, and 12 buildings totalising 2000 sqm of indoor spaces.		The intervention consists of supporting knowledge improvements and focuses on young people, through the promotion of technical, IT and managing skills. The GNS is articulated in 4 main "projects-objectives": (1) hatchery for new entrepreneurs, (2) International Didactic Pole focused on sea jobs, (3) "City of the nautical culture", (4) Training Place of the new managing class and of the nautical system of Gallura.	5.1.5 6.2.3	Management: foundation					Feasibility project	Yes	H	H
19	Province of Olbia-Tempio	Extension of runway	Airport of Olbia-Costa Smeralda located 3 km far away from the city centre		Interventions aimed at upgrading the airport of Olbia: extensions of the runway (sea side) for 354 metres with a small shift of the S.S. 125 located next to the airport.	5.1.1			CIPE (RAS: EUR 5m; NOP: EUR 13,9	Geasar: EUR 1,4m	EUR 20,4m	Feasible project	Yes	L	H

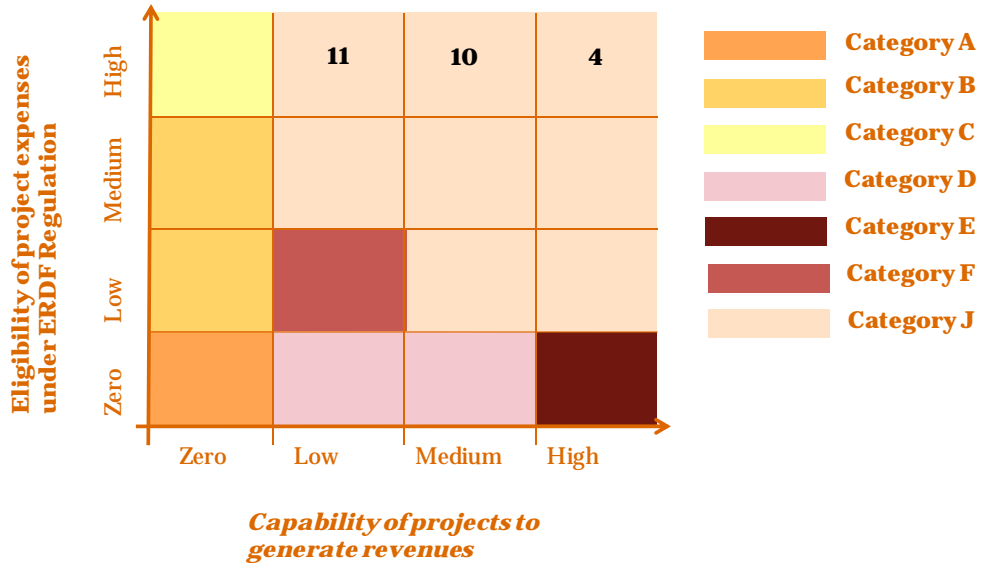
Project information								Project amount				Other information		Eligibility for JESSICA ²⁹	
ID	Promoter	Project title	Location	PISU (Yes/No)	Project Description	Sardegna ERDF OP Axis/operational objective	Notes	ERDF contribution	Other public contribution	Private contribution	Total amount	Project level	PPP	Capability to generate revenues	Eligibility of expenses under ERDF
20	Province of Olbia-Tempio	Aeronautical Centre	Areas next to the west side of the airport <i>Olbia-Costa Smeralda</i> (about 30 hectares) located 3 km far away from the city centre		The project consists of the realisation of a school for flying instruction with a target of about 300 pilots yearly. (cooperation with the Oxford Aviation Academy, British flight school). The main contents of the project relate to: fair ground, convention centre, sport centre, golf field, pools, swimming pool and academy of 10 thousand sqm.	5.1.3			m			Pre-feasibility project		M	H
21	Province of Olbia-Tempio	Multifunctional centre dedicated to the nautical district of Olbia	Industrial area next to the Industrial Port <i>Cocciani</i> and to the Ferry Terminal Of <i>"Isola Bianca"</i> .	Yes (PISU of the city of Olbia)	The Multifunctional centre PTE, following the realisation of all the planned interventions, could become a "Centre of Excellence" aimed at developing and promoting a network of specific knowledge, training, research and technological development (R&D), commercial support. The centre could also become a	5.1.5 6.2.3	Public financial coverage is expected based on art. 5 of Regional Law n.5/2009, and Regional Decisions n. 32/52 and n. 46/12, of 2010. Timing⁸ 1 Lot	EUR 15m	1 Lot: 2010 RAS: EUR 2m CIPN ES: EUR 0,13 m 2011		EUR 15,1m	Preliminary project	Yes Institutional PPP (PPPI) consisting of an entity with mixed capital that manages the works.	H	H

Project information								Project amount				Other information		Eligibility for JESSICA ²⁹	
ID	Promoter	Project title	Location	PISU (Yes/No)	Project Description	Sardegna ERDF OP Axis/operational objective	Notes	ERDF contribution	Other public contribution	Private contribution	Total amount	Project level	PPP	Capability to generate revenues	Eligibility of expenses under ERDF
			(the total surface consists of about 119.044 sqm)		strategic hub for the local community and the public service.		months): planning stage: 12, tender procedure: 3, implementing stage: 24, foreseen date for conclusion/test: 1° quarter 2014. Total: 39 months.		RAS: EUR 3m 2012 RAS: EUR 10m						
22	Province of Olbia-Tempio	Surface urban transport service in Olbia, connecting the airport, the port, the city centre, the beaches and Golfo Aranci.	The city of Olbia and its hinterland towards Golfo Aranci		The intervention consists of the realisation of a surface urban transport service in Olbia, connecting the airport, the port, the city centre, the beaches and Golfo Aranci. The existing railway track line could be used in order to finalise the intervention, removing level crossings through the adoption of specific visual/acoustic signals.	Specific objective 5.1						Pre-feasibility project		L	H
23	Province of Olbia-Tempio	Regional logistics system for Intermodal Transport of Goods.	Industrial area of the Province of Olbia, Airport <i>Olbia Costa Smeralda</i>	Integrated Development Projects (2006)	The intervention consists of: - the realisation of a railway terminal and of a transport network for the transport of goods from the industrial port of Olbia to the whole territory; - the realisation of warehouses	5.1.5 6.2.3	Proposals: a) G492 - Intermodal logistics system; b) F 431 International centre for					Feasibility project		H	H

Project information								Project amount				Other information		Eligibility for JESSICA ²⁹	
ID	Promoter	Project title	Location	PISU (Yes/No)	Project Description	Sardegna ERDF OP Axis/operational objective	Notes	ERDF contribution	Other public contribution	Private contribution	Total amount	Project level	PPP	Capability to generate revenues	Eligibility of expenses under ERDF
					for goods related to the fresh and cold food chains (airport logistics).		container warehousing ; - H332 Airport logistics.								
24	Province of Olbia-Tempio	Regeneration of historic buildings - "Case cantoniere"	The whole territory of the province		The intervention consists of the regeneration of historic buildings - "Case cantoniere" - (owned by the Province) through both interventions aimed at enhancing energy efficiency, and use of eco-sustainable materials. After regeneration the historic buildings should be used for tourist accommodation.	5.1.2	Management: Concession of services				EUR 5m			M	H
25	Province of Olbia-Tempio	Centre for specialised training in the hotel sector located in Arzachena	Arzachena		The intervention consists of the realisation of a Centre for specialised training in the hotel sector located in Arzachena. Specifically, the intervention foresees the enlargement and recovery of the "hotel school".						EUR 3,4m - only building extension	Feasibility study		M	H

Source: data/information provided by Sardinia stakeholders

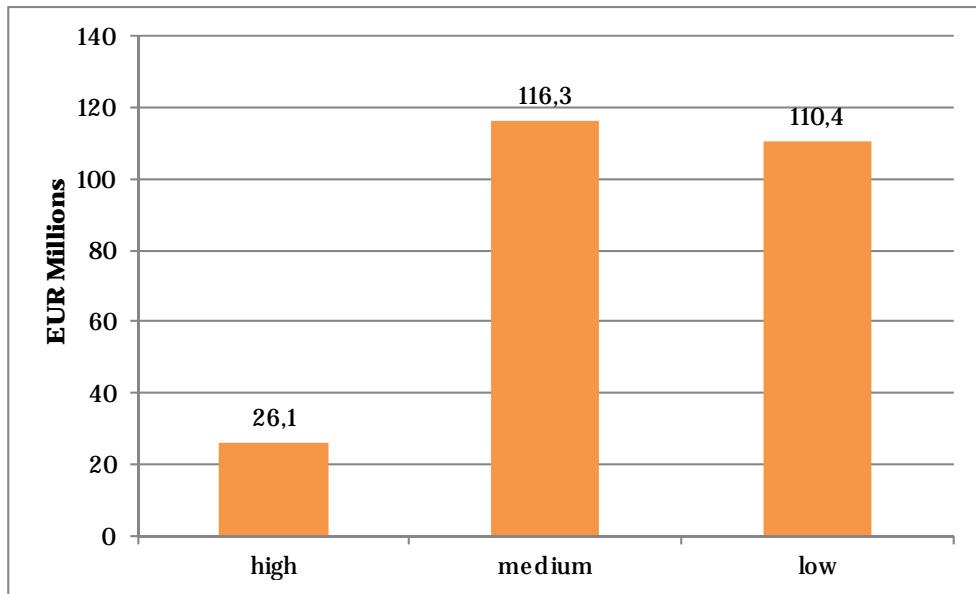
Figure 8 Projects' distribution in the JESSICA map*



*The numbers identify the total number of projects quoted in Table 10 above according to main categories of both Axis X and Axis Y

Based on available data, all proposed projects could be considered eligible under the JESSICA criteria. The total investment costs amount to about EUR 252,8m. Figure 9 below shows how the total investment costs are allocated based on the potential capability of projects to generate revenues:

Figure 9 Total projects' value by profitability level



Source: PwC analysis based on data provided by Sardinia stakeholders

As previously indicated in table 10, three of the four projects showing both high eligibility for project expenses and high capability to generate revenues (projects n. 11, 18 and 21), can be implemented through PPP schemes, thus allowing the project promoters to proceed quickly with the implementation process when at least preliminary projects related to the interventions concerned are already available.

Based on the information gathered, **projects n. 11 “Regeneration of *Carbonazzi* area”, 18 “*Gallura* Nautical System” and 21 “Multifunctional centre PTE dedicated to the nautical district of *Olbia*”** already achieved preliminary or feasibility project design levels and could be considered as **quick win projects**.

The possibility to apply a PPP scheme to **project n. 23 “Regional logistics system for intermodal transport of goods”** should also be investigated due both to the high relevance of this intervention in terms of eligibility for JESSICA and the availability of a feasibility study.

Moreover, **projects n. 3 “Pilot Quality Project dedicated to the tourist regeneration of the coastal suburb of *Fertilia – Città di Fondazione*”, 4 “Parking basement under square *Mercede*” and 10 “Regeneration of *ex-Cinema Astra* area”**, included among projects characterized by high eligibility for project expenses and medium capability to generate revenues in the JESSICA map, already achieved a preliminary project design level and could be implemented through PPP schemes. Thus, these three projects can represent a further pipeline of projects that could be successfully funded through JESSICA instruments.

Projects were also presented during the face-to-face meetings organised with the municipalities of Cagliari and Quartu but the related project dossiers were not made available by the interested stakeholders, thus limiting the preliminary assessment on the eligibility of the interventions under the JESSICA initiative.

- **Municipality of Cagliari**

- Regeneration of *Villa Muscas* (next to the new Auditorium) through the introduction of commercial activities;
- Realisation of a new cemetery;
- Regeneration of the *ex-Hospital Marino* through the setting-up of a sail centre (some private investors already showed to be interested in the project but there are environmental constrains to be taken into account).

- **Municipality of Quartu**

- Two parking basements;
- Regeneration of the *ex-Velodrome* into a cultural arena (devoted to concerts and drama).

6 Investment Strategy for JESSICA

The RAS (represented by the Managing authority of the Sardegna ERDF OP), through the JESSICA implementation process, pursues the following strategic objectives:

- to support the implementation of the EU cohesion policy within the context of urban regeneration;
- to take advantage of the revolving nature of financial instruments established through JESSICA. The use of revolving financial instruments enables the Managing Authority to create a tool that will “re-cycle” the financial resources dedicated to the Urban Projects and/or EE/RE Urban Projects. Once returned, these resources will represent an independent supply of funding, additional to other potential resources made available in future planning periods³²;
- to achieve leverage from both ERDF grants and other public-private investments that will be mobilized through the use of innovative financial instruments. By creating a financial instrument dedicated to revenue-generating Urban Projects and/or EE/RE Urban Projects and by facilitating access to credit at competitive conditions, the Managing Authority intends to attract private capital into these projects. Selected initiatives could be supported jointly by UDF(s) resources and public subsidies from other regional sources;
- to promote the long-term development and implementation of Urban Projects and/or EE/RE Urban Projects. The Managing Authority seeks to encourage local and regional administrations and private companies to plan investments which are capable of being financially self-sustainable whilst ensuring long-term economic, social and environmental benefits; and
- to create jobs through the Urban Projects and/or EE/RE Urban Projects.

As a consequence of identified priorities and expected benefits, the opportunity to establish a Holding Fund (namely, the JESSICA Sardegna Holding Fund – JSHF) and the EIB as holding fund manager - within which the JSHF will be organized as a “separate block of finance” - became evident. Possible advantages for the RAS of using a Holding Fund managed by the EIB mainly consist of:

- a “helping hand” in the JESSICA implementation process;
- an early access to European Structural Funds, signaling political commitment and availability of funding to sustainable urban regeneration and energy efficiency and use of renewable energy;
- engaging technical competence/expertise in establishing project pipeline and procuring UDFs;
- allowing possible aggregation of other public/private sector financial resources.

³² Compliance with Regulation (EU) n. 1310/2011 amending Council Regulation (EC) N. 1083/2006 as regards repayable assistance, particularly Article 43b “Reuse of repayable assistance” should be respected: “*Repayable assistance, repaid to the body that provided that assistance or to another competent authority of the Member State, shall be reused for the same purpose or in line with the objectives of the relevant operational programme. Member States shall ensure that an adequate record of the repayable assistance repaid is shown in the accounting system of the appropriate body or authority.*”

In order to achieve the objectives mentioned at the beginning of this section (6), the RAS has decided to contribute EUR 70m to the JSHF:

- EUR 35m devoted to urban renewal and regeneration in Sardinia main provincial capitals, and
- EUR 35m earmarked for the “Sardegna CO2.0 initiative designed to improve energy efficiency throughout the region by financing integrated municipal projects that include a renewable energy component.

Based on the information analysed JESSICA instruments are applicable in the context of the Sardinia region. Amounts dedicated by the RAS to the initiative are considered in line with the existing investment opportunities, bearing in mind the technical assistance devoted to the Smart City – Comuni in Classe A sub-initiative that is expected to boost the development of EE/ER projects eligible under JESSICA.

6.1 Rationale for a single or different vehicle(s)

Taking into account the objectives the RAS intends to pursue, the amount of funds devoted to JESSICA and the different level of implementation of urban development and EE/RE projects, the optimal structure of the JESSICA mechanism foresees the possibility to select UDF(s) that establish one or two vehicle(s) to implement their JESSICA investment strategy (as showed in the figures below) based on the two options below:

- OPTION 1:UDF(s) adopting different investment thematic strategies through the establishment of a single vehicle (in order to invest in both types of projects) (see Figure 10). As a result, the costs of one single UDF could be characterized by significant elements of economies of scale compatible with the principles of sound and efficient financial management;
- OPTION 2: UDF(s) that establish two different vehicle(s), one dedicated to Urban Development Projects and one dedicated to EE/ER Urban Projects (see Figure 11). The allocation of the funds to more than one UDF could facilitate (i) a greater and widespread coverage of the territory thanks to the combination of both UDF networks, (ii) benefits the competition between the two UDFs with a positive impact on the quality of the investment activity, the financial conditions offered to final recipients and the overall effectiveness of the JESSICA implementation.

To smooth the process and allow a successful implementation of the JESSICA initiative in the Sardinia Region, the UDF(s) should be selected through a single Call for Expression of Interest divided in two Lots, one devoted to the urban development initiatives and the other one to the EE/RE projects where UDF candidates may opt to participate to a single or both lots and decide whether setting up **one or two vehicle(s)** to allocate JESSICA funds, so to attract a larger number of applicants.

Figure 10 Example of JESSICA structure represented by 1 vehicle

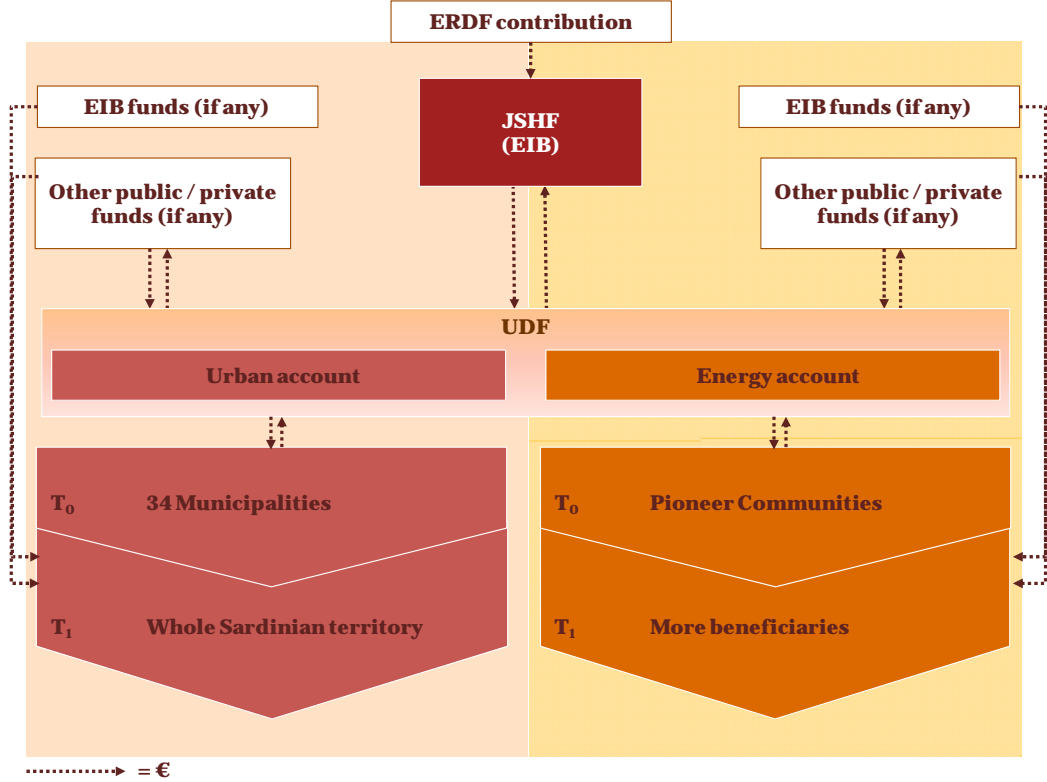
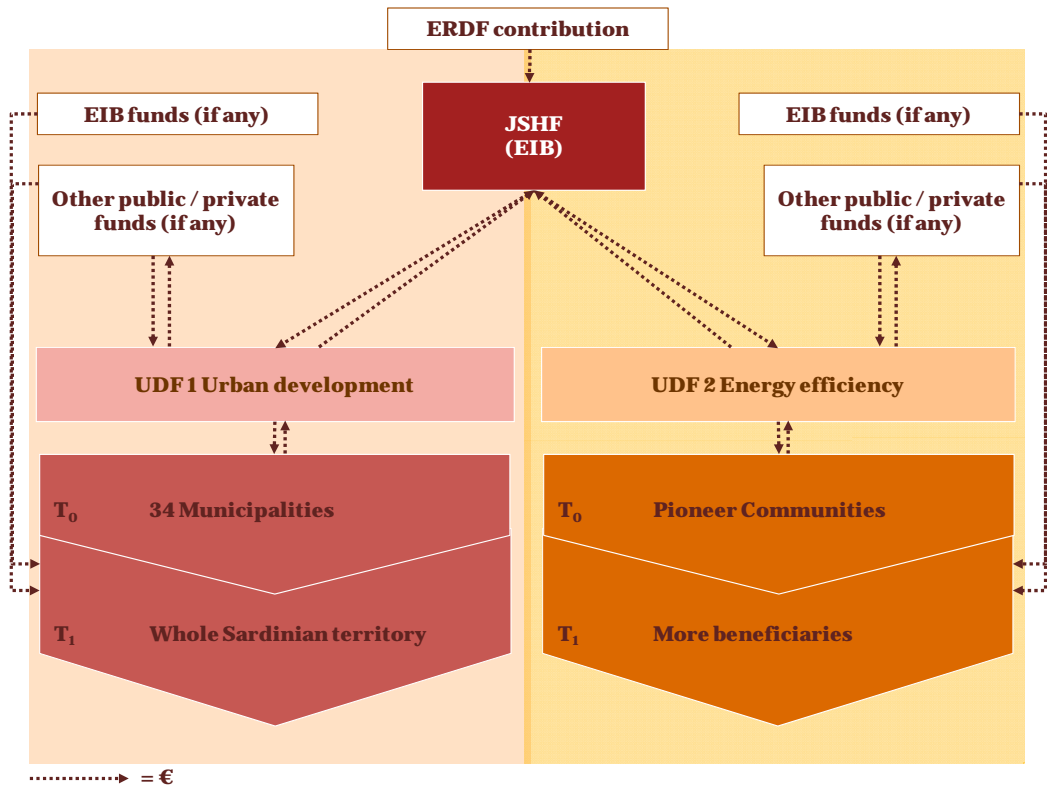


Figure 11 Example of JESSICA structure represented by 2 vehicles



6.2 Possible operational set-up for candidate UDF(s)

Under the Structural Funds regulations the vehicle(s) may be established as a separate block of finance within financial institutions or as independent legal entities. For example:

- Joint stock company;
- PPP (Public Private Partnership);
- Investments fund;
- Limited liability company;
- Other organisational forms which require special legal regulation/statute.

Loans, equity and equivalent financial instruments are the investment products that can be used by the JSHF and there are no limits in terms of the mixture of these.

Likewise, funds provided to the UDF(s) to be invested in the targeted Urban Projects and/or EE/RE Urban Projects through adequate financial instruments (equity, loans or equivalent financial instruments).

Therefore, the UDF(s) and the Final Recipients of the Urban projects and/or EE/RE Urban Projects will enter into finance contracts (i.e. loan agreements, as regards the loans; equity agreements, as regards equity; or other specific financial agreements entered into for any equivalent financial instruments), in which the financial terms of the provision of said funds will be described in detail.

6.3 Project(s), or a set of pilot projects, complying with integrated urban regeneration and/or energy efficiency criteria and suitable for Structural Funds support

UDF(s) may only make investments or commit to investment in projects which:

- according to the EU Structural Funds Regulations, are part of an integrated plan for sustainable urban development (i.e. PISU and SEAPs introduced in section 6.3) as an example, but not limiting, the following:
 - improvement of social integration,
 - development of cultural, sport and recreation infrastructures,
 - creation of entrepreneurial support structures and development of creative industry clusters,
 - improvement of mobility,
 - improvement in energy management and energy efficiency,
 - increase of the use of renewable energy,
 - reconversion of buildings, including residential ones, for non residential uses,
 - reconversion of industrial and degraded areas,
 - any other category compliant with the EU Structural Funds Regulations and eligible under the Sardegna ERDF OP objectives;
- have received a confirmation from the Managing Authority on their compliance with criteria specified within Sardegna ERDF OP objectives;

- offer an acceptable return on investment in line with market standard following the contribution of JESSICA funds;
- have not been already completed. A UDF shall not re-finance acquisitions or participate in projects already completed.

6.3.1 Specific Urban Projects for Urban Development

In addition to the general eligibility criteria outlined above, the Urban Projects shall:

- be covered by the categories of spending 06, 09, 13, 25, 26, 28, 30, 52, 58, 61, 62, 71, 75, 76,77, 79 (section 3.2)³³;
- be implemented by:
 - Public entities,
 - Private companies and natural or legal persons,
 - Public-Private Partnerships (including mixed public-private companies and private partners of contract- type PPPs).

6.3.2 Specific EE/RE Urban Projects

In addition to the general eligibility criteria outlined above the EE/RE Urban Projects shall:

- be covered by the categories of spending 39, 40, 41, 42, 43 (section 3.2) whose specificities are further detailed below;
- be part of the Sardegna CO2.0 initiative (giving priority to projects included in the Smart City – Comuni in Classe A sub-initiative);
- be implemented by:
 - Public entities,
 - Energy Services Companies (ESCOs),
 - Other Private companies and natural or legal persons,
 - Public-Private Partnerships (including mixed public-private companies and private partners of contract- type PPPs).

The **priority themes** targeted by the EE/ER Urban Projects are:

Renewable Energy, wind power, solar power, biomass, hydroelectricity, geothermal power, others (categories of spending codes number 39, 40, 41 and 42)

The themes cover all investments which have the main objective of producing energy from renewable sources. In the context of the UDF projects are eligible only if the energy is mainly produced for the self sustainability of the local communities.

Energy Efficiency, Cogeneration and Energy Management (category of spending code number 43)

The theme covers all investments which have the main objective of reducing energy consumption and increasing the energy efficiency in the eligible sectors. In the context of this first UDF(s), the following projects are eligible:

- Energy Savings/ Energy Efficiency in buildings

³³ In order to simplify procedures, reference categories can be limited to category 61, that includes all kind of urban projects that can be developed through JESSICA

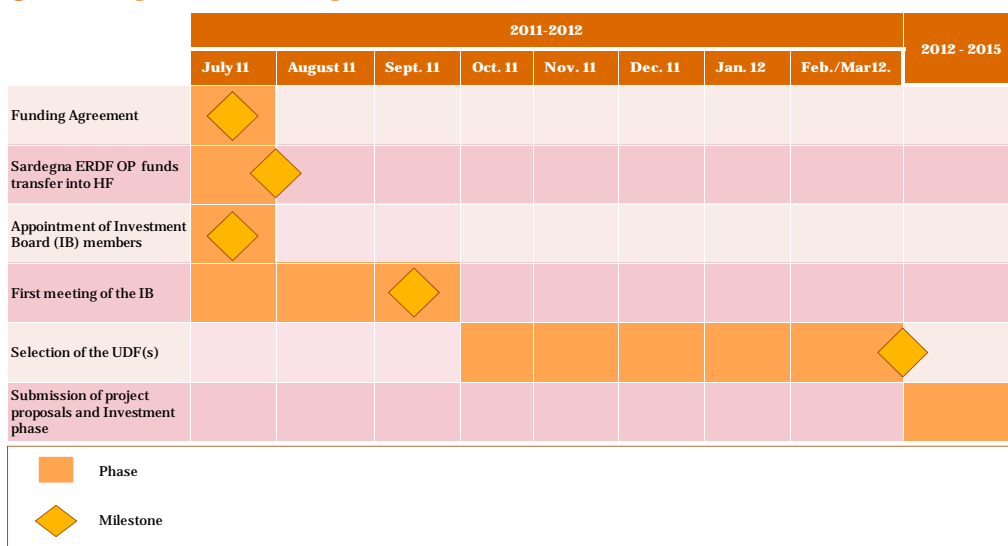
Projects can involve public and private buildings to support increased energy efficiency. The following projects are eligible:

- investments for the renovation of existing buildings which have a main aim of improving energy efficiency. This aim can be achieved through measures such as putting in thermal insulation, replacing inefficient heating/cooling systems with more energy efficient HVAC (Heating Ventilating, and Air Conditioning), and installing more energy efficient lighting systems;
- investments in new buildings achieving an energy efficiency standard class A or B Funds can finance the additional cost in relation to the minimum standards (i.e. class C)³⁴.

6.3.3 Proposed timetable for the implementation

The figure below summarises the phases, and relative timeline, required for the implementation of JESSICA financial instruments in the Sardinia Region.

Figure 12 Implementation steps



The first phase consists of the negotiation and signing of the Funding Agreement for the establishment of the JESSICA Sardegna Holding Fund (JSHF) based on the main findings of this evaluation study. During this phase, the Investment Strategy, as well as the roles and responsibilities of the key parties involved are defined. The agreement between the EIB and the RAS was signed on July, 20th, 2011. Simultaneously, the first meeting of the Investment Board (IB) took place. The IB approved the internal governance rules and the code of conduct. The second phase concerns the selection of the UDF(s). During this phase starting in September 2011, the EIB will prepare the public tender documents which will be presented to the IB for approval. The UDF(s) selection process will be then launched at very beginning of October 2011. The launch of the process will be officially announced on September 26th, during a public meeting organised by the Presidency of the RAS.

At the end the process the EIB will present the results of the evaluation process for the UDF(s) selection to the IB for approval, and will prepare the operational agreement to be executed between the JSHF and the selected UDF(s).

Following the finalization of the Operational Agreement, the investment phase will start. At this stage, the UDF(s) will evaluate projects and invest JSHF funds.

³⁴ Under the current Technical Building Code.

On September, 26th, 2011 is also expected the official announcement of the JSHF to coincide with a public meeting to be held between the EIB and the Presidency of the RAS.

Appendix 1: Legal and regulatory aspects of JESSICA implementation

JESSICA in Sardinia: relevant State aid issues

From the perspective of State aids, a number of issues need to be considered in relation to the implementation of JESSICA.

In particular, a holding fund (Holding Fund or “HF”) is established, to which the RAS will allocate JESSICA resources, which, in turn, will distribute these resources to one or more UDFs. The latter will invest in Urban development projects and EE/RE projects to be implemented through, among others, public-private partnership operations (“PPP”). This scheme may imply the presence of State aid at different levels, corresponding to the various injections of public resources - to be extracted from the Structural funds allocations - to undertakings.

A Concept of State aid and possible presence of aid at the different levels of the JESSICA structure

1. EU rules on State aid provide that a transfer of money, or other economic benefit, from a public administration, or other public entity, to an undertaking is a State aid when it meets certain conditions.
2. In particular, State aid is to be found, according to Article 107, paragraph 1, of the Treaty on the Functioning of the European Union (the “TFEU”), only if the following cumulative conditions are met, namely:
 - a. a transfer, even indirect, of State resources (or at least public);
 - b. an economic advantage, i.e. the measure confers on the recipients - who must be undertakings, according to the definition accepted by EU rules, i.e. a person offering goods or services on the market - a competitive advantage that they would not have received under normal market conditions;
 - c. the measure is selective, namely, it does not have a general nature, but applies only to certain undertakings, and
 - d. there is an effect on competition and trade between Member States, namely the measure affects, albeit only potentially, the conditions of competition in the EU market.
3. Regarding the level of resource transferred from the RAS to the HF, it is possible the manager of the latter may receive a State aid. The same consideration applies to the transfer of resources from the HF to the UDFs.
4. In this case, as the HF is managed by the EIB, the problem does not arise, since the latter is not an economic entity in competition with others. This is because the direct award to EIB is stated in Regulation (EC) 1083/2006 and subsequent amendments and additions (Article 44, para. 2, lett. c) and occurs under conditions fixed by the said Regulation – thus, by definition “*at market condition*”.
5. The same is true at the UDFs level, because they are selected by the EIB in accordance with procedures ensuring that the management remuneration is set at market levels. [cf. Community guidelines on state aid to promote risk capital investments in small and

medium-sized companies, para. 3.2³⁵; COCOF Note 10-0014-04-EN of 21 February 2011, para. 8.1 a)].

6. It remains to clarify if the future investments in urban development projects will involve State aid issues.

B State aid at urban development project level

1. In this context, two cases must be considered:
 - a. the investment by the UDFs in the projects - or in the vehicle companies appointed to achieve the same (the “SPV”) - on the one hand, and
 - b. further additional tools that can be placed at the disposal of the same projects by the RAS, from the Regional Funds or other regional resources, such as, for example, guarantees, or grants. In this second case, it should be remembered that, pursuant to Article 43, par. 6 of Regulation (EC) 1828/2006 and subsequent amendments and additions, the use of financial engineering does not exclude the possibility to combine these instruments also with grants, in favour of the same beneficiaries.
2. With regard to the State aid element to be found at this level, in the first place, it must be noted that the transfer of resources to public bodies - such as municipalities - does not, by definition, constitute State aid, because it does not offer any competitive advantage, since municipalities are not undertakings and do not compete on the market.
3. Where the investment of UDFs in the project (or SPV) takes place at market conditions - that is, following an evaluation of the market parameters, carried out by the same UDFs - the same cannot be considered a State aid, because the so-called “market investor principle” (the “MIP”) applies. The MIP - that is mainly used by the Commission in cases of public authorities’ holdings in companies - provides that the presence of State aid may be excluded where the conduct of the State/or other public entity investing in the company is equivalent to that of a investor/lender under normal market conditions, i.e. where the motivation of the investment is the reasonable expectation of a profit, though not necessarily in the short term.
4. Where there are equity investments, the presence of State aid may be excluded when such investments comply with the so-called *pari passu* rule, i.e. the investment of private and public sectors must be equivalent, in terms of amount, conditions and remuneration.
5. If, conversely, the UDFs’ investment in a project occurs according to conditions more favourable than market conditions that is a State aid³⁶.
6. In this case, the State aid - which may be inserted into an aid scheme³⁷ or be given *ad hoc*³⁸ - will fall into one of the following categories:
 - a. aid exempted under the General Block Exemption Regulation (EC) 800/2008 (“Regulation 800”) or under the *de minimis* Regulation (EC) 1998/2006 (the “De minimis Regulation”);
 - b. aid not exempted, but that may be assessed under one of the guidelines or frameworks issued by the EC;
 - c. aid not exempted and not fitting into any existing framework.

³⁵ In OJEU C 194, 18.8.2006, as amended by Commission communication published in OJEU C 329, 7.12.2010.

³⁶ In general, the EC assesses the presence of State aid by considering whether, in similar circumstances, a private undertaking, based on predictable sources of income, regardless of any considerations of social, or regional or sectoral policy, would have executed that particular financial transaction. See, for example, the description provided by the EC of the MIP, in particular, in paragraph 3.2.4 of the Community Guidelines on Financing of Airports and Start-up Aid Granted to Airlines Departing from Regional Airports (2005/C 312 /01), published in OJEU C 312, 9.12.2005.

³⁷ I.e. a scheme with specific conditions for benefitting of the aid.

³⁸ Which is awarded to one (or more) specific enterprises, according to their individual needs and characteristics, outside of any State aid scheme.

7. The main types of aid that can, in theory, fall within the general exemption of Regulation 800 are the following:
 - a. regional aid;
 - b. aid to SMEs;
 - c. aid for environmental protection;
 - d. aid for research and development and, within certain limits, innovation;
 - e. aid in the form of risk capital;
 - f. aid for the employment of disadvantaged or disabled workers;
 - g. training aid.

8. In the case of the JESSICA instrument to be implemented in Sardinia, the types of aid that could be referred to, as regards the investment of the UDFs, could be the following:
 - a. regional investment aid³⁹, which can only be granted in the form of arrangements and without sectoral specifications. For this kind of aid, the intensity allowed may be raised by 10% for medium enterprises and 20% for small enterprises;
 - b. investment aid to SMEs, with a maximum intensity of 15% for medium enterprises, and 20% for small enterprises, with a maximum total of EUR 7.5 million per undertaking, per project;
 - c. aid in the form of risk capital, only to SMEs - when the investment of UDFs in project is of predominantly equity - within the limit of a tranche of investment up to EUR 1.5 million per company, over a period of 12 months and under certain conditions, including an investment of 30% by private individuals, given that Sardinia is still considered as an assisted area⁴⁰;
 - d. aid for environmental protection, where interventions are provided on energy efficiency/renewable energy. In this case, the aid intensity can reach - in relation to the production of renewable energy - 45% of the additional costs incurred by the beneficiary compared to the investment that would be needed in case of traditional energy production facilities and - for aid for investments aimed at energy savings - 20% of the additional costs necessary to achieve the level of expected energy savings, or 60%, when specific conditions are met. In both cases, the intensity allowed may be raised by 10% for medium enterprises and 20% for small enterprises.

9. Aid exempted, according to Regulation 800, may be implemented without requiring any prior notice to the EC. However, for all aids within the scope of Regulation 800, it is required to inform the EC by electronic means, using the provided forms, attached to the same Regulation 800, within 20 working days after the implementation of the scheme, or the grant of the *ad hoc* aid.

10. Conversely, if the type of investment - on favourable terms - is not related to any of the above mentioned categories of aid, eligible for exemption under Regulation 800, nor under the De minimis Regulation, it would be necessary to make an *ad hoc* notification to the EC, before implementing any investment. This would result in significant delays. The notification procedure involves a first phase, of preliminary evaluation by the EC, which must be closed within a deadline of two months from the transmission of the notification – but this period may be suspended in cases where the EC requests additional information – with a decision that can either:

³⁹ Sardinia, according to the Italian regional aid map, is totally eligible for the majority of its municipalities, and partly eligible for others. As from 2011, the maximum intensity of aid allowed is 15%.

⁴⁰To the exclusion of certain parts of it (see previous footnote).

- a. declare that the notified measure does not constitute aid;
 - b. decide not to raise objections;
 - c. express doubts about the compatibility of the aid and open an in-depth investigation procedure.
11. In the latter case, mentioned *sub* B10c., the EC will open an investigation procedure, without any time limit - despite the EC's commitment to conclude it within 18 months - and that, therefore, might slow down – or, in case of a negative final decision, even prevent – the UDFs' investment. For this reason, we recommend that the RAS provide, for any aid that the RAS envisages to grant at the project level, for exclusively the kind of measures falling within the exempted categories.
 12. Similar conclusions apply to any other additional aid instruments mentioned above, *sub* B.1.b.
 13. In particular, if the RAS intends to provide tools that involve grants, the assessment on whether such measures may constitute exempted aid, or not, is indispensable in the preliminary phase, for the same reasons outlined above about the timing - and therefore, the usefulness - of such instruments. Therefore, if the RAS intends to provide mitigation for projects/SPV, through aid measures, it is highly recommended that it only include the kind of aid that is exempted, so that it can be available at the same time as the UDFs' investment.
 14. As for the aid in the form of guarantees, the assessment to be made is partly different. In fact, should the RAS envisage to provide guarantees for projects/SPV, it should, first of all, assess whether such guarantees are likely, or not, to constitute State aid. Such an assessment must be based on the Commission Communication on State aid in the form of guarantees⁴¹ which establishes a uniform method – which must be differentiated according to whether the beneficiaries are SMEs or large companies and depending on whether they are part of a scheme or are granted *ad hoc* – in order to check if these guarantees are in line with market conditions, in which case they cannot be considered as aid.
 15. If, conversely, the level of the guarantee or the amount of the prize does not fall within the conditions set out in the Communication, the guarantee would be considered a State aid.
 16. In this case, provided that the guarantee – in view of its main purpose – may fall under the categories of aid exempted under Regulation 800, or under the De minimis regulation, the aid element should be calculated according to the method submitted by Italy for the calculation of the aid element in guarantees, approved by Commission Decision of July 6th, 2010⁴². The guarantee may be granted within the limits of intensity and amount as provided therein.
 17. If, conversely, the guarantee does not fall into any of the types of aid referred to in Regulation 800, nor the De minimis Regulation, after calculation of the aid element according to the aforementioned method, it should be notified, with the already mentioned risks.

⁴¹Published in OJEU C 155, 20.06.2008.

⁴² C(2010)4505 final.

Impact of the provisions of the internal stability pact for the period 2011-2013 and the explanatory communication No. 11, issued on April 6, 2011, by the Ministry of Economics and Finance – “Ragioneria dello Stato” (State Accounting Department) on the JESSICA operations

1. The scope of the internal stability pact rules for the period 2011-2013 (the “Stability Pact”) is currently determined by Law No. 220 of December 13, 2010 (the “Stability Law 2011”), Article 1, paragraphs 87 and the followings, for local authorities and regions..
2. Moreover, the contents of the communication No. 11, issued on April 6, 2011, by the Ministry of Economics and Finance – “Ragioneria dello Stato” (State Accounting Department), which spells out the interpretative criteria for the application of new rules by local authorities (the “Communication”) should also be taken into account.
3. Paragraph 87 of Article 1 of the Stability Law 2011 states that, in general, the local entities subject to the Stability Pact are the provinces and municipalities, with a population exceeding 5,000 inhabitants.
4. Pursuant to paragraph 97, Article 1 of the Stability Law 2011 – and as already foreseen in the legislation issued in the previous years – the *“resources coming directly or indirectly from the European Union, as well as related expenditures, both classified as current or capital expenditures, incurred by the provinces and municipalities”* are not included in the financial balance in terms of mixed competence relevant for the purposes of compliance with the Stability Pact. The exclusion does not work for costs relating to the national co-financing. In this regard, the Communication, at para. C.3, specifies that resources from the European Union (“EU”) are those coming from the same EU *“through the State, region or province”* among which, typically, those relating to Structural Funds. The exclusion of the aforementioned expenses, again in accordance with para. 97 of Article 1 of the Stability Law 2011, operates even if these are carried out over a period of several years, *“provided that the overall limits of the same resources”* is not exceeded. The Communication indicates this limit is corresponding to *“the amount of resources allocated”*. Moreover, para. 97 of the same article provides that, should the EU uphold an amount lower than the amount *“considered for the purposes of applying the provisions of paragraph 97”*, i.e. those certified for the purposes of reporting eligible expenditures to the EU, *“the amount corresponding to the expenditure that has not been upheld is included among the expenditures relevant for application of the internal stability pact for the year in which such failure to uphold the expenditures is communicated”* or in the next year, if the communication is made in the last four months of the year.
5. According to the Communication, the rationale for the exclusion from the Stability Pact of the expenditures used for implementing operations financed by EU funds is linked to the need not to delay the implementation of projects carried out in partnership with the EU, taking into account that the relevant amounts are subject to reporting and that the timing of expenditure is relevant in order to avoid the automatic de-commitment provisions of Article 93 of Regulation (EC) 1083/2006 and amendments and subsequent modifications (the “General Regulation”). By contrast, the Communication adds that if the expenditure is made from resources of the region (or province), the exclusion does not apply, even when these resources come from the repayment of loans granted to local authorities from the EU resources budget. In other words, the only exempted expenditures are, *ex ante*, those which are subject to reporting and, *ex post*, those which are actually upheld at EU level.
6. In any case, the Communication specifies that the assessment on the nature of the allocated resources remains within the responsibility of the beneficiary - on the basis of the granting acts and related expenses - and of the same entity that allocates the relevant resources.

7. Finally, the Communication, at para. C.4, illustrates some examples of calculation of the financial balance when applying the exceptions - including those relating to EU funds - and clarifies such exemptions do not apply to revenues for the years before 2009. Therefore, only “*expenditures, annual or multi annual, relating to revenue recorded after 2008*” may be excluded.
8. In the light of the regulatory framework as described above, it must be concluded that the expenditure of resources from the Regional Operational Programmes, in general, are not subject to the Stability Pact - to the exception of co-financing originating from State (or other public) resources, as already mentioned - , and this is also true as regards the sums to be allocated, through JESSICA, to urban development projects in Sardinia - or rather, projects to be realized through UDFs - as these sums may fall within the exceptional cases regulated by Article 1, para. 97 of the Stability Law 2011.
9. **In particular, for JESSICA projects, it should be noted that the costs exempted are those subject to reporting at EU level, and, therefore, include:**
 - a. **payments to the EIB, made by the RAS to the HF;**
 - b. **transfers from the EIB to the identified UDF/s;**
 - c. **investments by the UDF/s in the individual projects.**

Conversely, the expenditures incurred deriving from the resources recovered following the repayment of loans or other investment of the UDF/s must be considered as regional resources and, therefore, subject to the Stability Pact, notwithstanding the fact that they must be used according to the provisions of Article 78, para. 7 of the General Regulation⁴³.

⁴³ According to which: “*Interest generated by payments from operational programmes to funds as defined in Article 44 shall be used to finance any of the following:*

(a) *urban development projects in the case of urban development funds;*
 (b) *financial engineering instruments for small and medium-sized enterprises;*
 (c) *in the case of funds or other incentive schemes providing loans, guarantees for repayable investments, or equivalent instruments, for energy efficiency and use of renewable energy in buildings, including in existing housing.*
Resources returned to the operation from investments undertaken by funds as defined in Article 44 or left over after all guarantees have been honoured shall be reused by the competent authorities of the Member States concerned for the benefit of urban development projects, of small and medium-sized enterprises or for energy efficiency and use of renewable energy in buildings, including in existing housing.”