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**CROATIA**

**EU COHESION POLICY 2014-2020**

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| **Preliminary needs assessment for using Financial Instrument JESSICA** |

**PROJECT TASK 1.4**

**June 2014**







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**CROATIA**

**EU COHESION POLICY 2014-2020**

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| **Preliminary needs assessment for using Financial Instrument JESSICA** |

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1. Introduction

This preliminary needs assessment was carried out by Transtec and HCL Consultants for Croatia’s Ministry for Regional Development and EU Funds (MRDEUF), financed by the EU under the IPA 2007 project ‘**Support in enhancing regional and territorial dimension in programming documents for EU Funds 2014-2020’.** The assessment is part of a suite of studies delivered under the project, which examine options for integration of the territorial dimension in Croatia’s programming of European Structural and Investment (ESI) Funds for the 2014-20 period.

This document corresponds specifically to Task 1.4 of the project, which provides for a preliminary needs assessment for using the JESSICA (*Joint European Support for Sustainable Investment in City Areas*) Financial Instrument in Croatia to support investments in ‘Sustainable Urban Development’ (SUD).

The assessment undertaken has investigated:

* the potential scope for investment (e.g. in major water, waste or energy infrastructure; the reclamation of brownfield sites to prepare them for development; energy efficiency in housing; heritage sites and associated infrastructure);
* the existence or potential to create partnerships for SUD;
* the existence or potential to create integrated plans for SUD;
* capacity to manage Urban Development Funds (UDFs as defined by Art. 43 and Art. 46 of the previous General Regulation 1828/2006).

This preliminary needs assessment is intended to provide the necessary information to support a decision on whether to proceed towards a full and formal ex-ante appraisal as would be required under Article 37 (2) of the Common Provisions Regulation 1303/2013 prior to the creation of JESSICA type funds in Croatia.

The research in relation to Task 1.4 has involved:

* review of published material on JESSICA and related energy efficiency schemes, including evaluations and materials from the JESSICA Support Platform;
* consultations with Operational Programme (OP) Managers in the UK and Lithuania concerning experience in translating committed JESSICA and energy efficiency funds into actual investments and the scope and scale of investments supported;
* appraisal of the functioning commercial property market across Croatia and market conditions through examination of property market reviews and consultations with property market professionals;
* consultations with Croatia’s large cities and medium-sized towns which included: exploration of interest in the main categories of investment that can be supported with JESSICA; the existence of development partnerships and plans; and examination of investment priorities highlighted by urban areas through the questionnaire survey carried out as part of Task 1.1 - *Analytical Study on Sustainable Urban Development*;
* interviews with financial institutions to explore their interest in investment in Urban Development Funds and the existence of capacity for their management.

This report covers:

* an outline of the JESSICA Financial Instrument, its purpose, its operation and its related requirements;
* the extent of deployment of JESSICA in 2007-13 and experiences in its implementation;
* appraisal of the market, financial and administrative conditions in Croatia, having a bearing on the feasibility of deploying JESSICA type Instruments in 2004-20;
* investigation of Financial Instruments to promote investment in energy efficiency and renewable energy;
* conclusions and recommendations for the Croatian authorities.

2. The JESSICA Financial Instrument

The JESSICA initiative is a joint venture between the European Investment Bank (EIB), the European Commission and the Council of Europe Development Bank. Its aim is to provide a more cost-effective method than the traditional grant-based approach for financing investments the urban development field.

***What can JESSICA be used for?***

JESSICA promotes sustainable urban development by supporting projects in:

* urban infrastructure – including transport, water/waste water, energy;
* heritage or cultural sites – for tourism or other sustainable uses;
* redevelopment of ‘*brownfield’* sites – including site clearance and decontamination;
* creation of new commercial floorspace for SMEs, IT and/or R&D sectors;
* university buildings – medical, biotech and other specialised facilities;
* energy efficiency improvements in buildings – both commercial and residential;
* renewable energy production.

A key point is that the projects JESSICA invested in in 2007-13 had to form part of an integrated sustainable urban development strategy. Although there is a unitary framework for financial instruments in 2014-20, where they are used in support of sustainable urban development, this will de-facto be in the context of the integrated strategies required for SUD.

***How does JESSICA work?***

Under JESSICA, ERDF resources from a Member State Operational Programme (OP) contribute to the creation of one or more Urban Development Fund(s) (UDFs), together with domestic public resources and/or resources from the private financial sector (possibly including the EIB itself). These Financial Instruments may then invest in public-private partnerships or other projects included in an integrated plan for sustainable urban development. The investments may take the form of:

* Loans
* Guarantees
* Equity participation

All of the money in a UDF must be invested into urban development projects by the end of the OP expenditure period – i.e. by the end of 2023 in the case of 2014-2020 OPs.

However, given the nature of the investments made, the money is ultimately paid back to the UDF. The UDF may then become a ‘revolving’ Instrument, investing again and again in further sustainable urban development projects, as well as growing over time. In this way, JESSICA type Financial Instruments can achieve a very substantial increase in value for money compared to traditional grant funding – adding a whole new significance to the EU Funds’ visibility phrase ‘*Investing in the Future’*.

The projects in which a UDF invests are nevertheless somewhat different on the whole from the normal targets of grant funding. In the first instance, they must have clear potential to generate profit and hence be capable of repaying the assistance provided by the UDF. Yet on the other hand, they should not be so profitable, or of such low risk, that they could attract normal banking finance if the UDF did not exist. The UDF must therefore aim to address areas of market failure in sustainable urban development and must not be placed in the position of simply competing with the domestic banking and financial sector (for example by supporting property investments that meet market funding criteria and on similar terms).

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| **JESSICA Urban Development Funds (UDFs) and market failure**  *‘The expected profitability of a Project without UDF support should be lower than normally required by the market.*  *With typical forms of financing the Project could not have been realized - rates of return for the Project’s investors would be lower than normal market conditions. Hence, a market failure exists’*  **European Investment Bank - 2011** |

UDFs, as defined by the EIB in 2010, may be established as:

* Joint stock companies – entirely owned by shareholders (‘*d.d’* in Croatia);
* Limited liability companies – in which the liability is limited to each owners investment in the company (‘*d.o.o.’* in Croatia);
* Investment funds - separate blocks of finance within financial institutions;
* Other acceptable organisational forms.

Under JESSICA, a Member State may choose to set up several separate UDFs specialising in different types of investment, or in different investment fields. These will usually be established in a Holding Fund structure, to be known in the 2014-2020 phase as a ‘Fund of Funds’. The Fund of Funds approach offers increased flexibility, allowing Fund Managers in the Member State to switch resources between the different component UDFs to better address changing market conditions and make the most of new emerging opportunities.

***Regulatory requirements for JESSICA Financial Instruments in 2014-2020***

The main regulatory requirements for Financial Instruments in 2014-2020 are to be found in Articles 37-46 of the Common Provisions Regulation 1303/2013 – much of which applies to JESSICA-type instruments. There is also a draft Implementing Act[[1]](#footnote-1), currently under discussion in the new Committee for ESI Funds (COESIF), which will provide specific amplification on:

* CPR Art. 38 (3) – Financial Instruments standard terms and conditions;
* CPR Art. 38 (10) – Financial Instruments – modalities, transfer and management of resources;
* CPR Art. 40 (3) – Report on implementation of Financial Instruments.

Once approved, the Implementing Act will cover detailed aspects, such as eligibility, financial management and control and selection and remuneration of fund management bodies, as well as a limited number of ‘off-the-shelf‘ Instruments. One of the four ’off-the-shelf’ Instruments now proposed concerns ***loans*** for energy efficiency or renewable energy in the residential building sector.

One of the main differences compared to the 2007-2013 period is the requirement for a **detailed ex-ante assessment** prior to setting up a new Financial Instrument. According to Articles 37 of the Common Provisions Regulation, the ex-ante assessment must cover the following elements:

1. an analysis of market failures, suboptimal investment situations, and investment needs for policy areas to be addressed by the Instrument;
2. an assessment of the added value of the Instruments under consideration, its consistency with other forms of public intervention addressing the same market and possible State Aid implications;
3. an estimate of additional public and private resources to be potentially raised by the Instrument down to the level of the final recipient (expected leverage effect), including as appropriate an assessment of the need for, and level of, preferential remuneration to attract counterpart resources from private investors and/or a description of the mechanisms which will be used for this purpose;
4. an assessment of lessons learnt from similar instruments and ex ante assessments carried out by the Member State in the past, and how such lessons will be applied in the future;
5. the proposed investment strategy, including an examination of options for implementation arrangements, financial products to be offered, final recipients targeted and envisaged combination with grant support as appropriate;
6. a specification of the expected results and how the Instrument concerned is expected to contribute to the achievement of the specific objectives set out under the relevant OP priority including indicators for that contribution;
7. provisions allowing for the ex-ante assessment to be reviewed and updated as required during the implementation phase, where the Managing Authority considers that it may no longer accurately represent existing market conditions.

The ex-ante assessment may be performed in stages, but must be completed before the Managing Authority decides to make OP contributions to the Financial Instrument in question.

JESSICA type Financial Instruments – Fund of Funds and/or individual UDFs – in Member States may be managed by:

* the Managing Authority of the OP in question (only in the case of Instruments consisting of loans or guarantees);
* the EIB;
* International financial institutions;
* National financial institutions under the control of a public authority;
* a body governed by public or private law.

Where any of these bodies then selects a private sector financial intermediary for fund management tasks (covering appraisal and approval of applications for funding, ensuring regulatory compliance, monitoring and managing of investments – maximizing longer term gains to the Fund itself), the selection must be made on the basis of open, transparent, non-discriminatory (public procurement) procedures in line with the detailed criteria laid down in the draft Implementing Act. Remuneration of fund management bodies must also be in line with the detailed scales and ceilings set out in the Implementing Act for different types of Instrument.

Under previous Financial Perspectives, Member States often considered setting up Financial Instruments as an easy way of meeting ‘n+2’ expenditure requirements at OP level because payments to such Instruments were all made at the outset and immediately considered as money spent. For 2014-2020, however, payments from OPs to Financial Instruments must respect the following ceilings:

* 1st payment must be less than 25% of total resources committed to the Instrument;
* 2nd payment made only when 60% of the initial tranche cleared (i.e. invested);
* subsequent payments when 85% of preceding tranche cleared.

The Commission’s intention here is to try to avoid large scale resource transfers to Financial Instruments followed by slow implementation. In order to ensure that Financial Instruments have a revolving character, the re-use of capital resources and financial gains to EU funds invested in a Financial Instrument must be used for same purpose for at least 8 years after the end of the OP eligible expenditure period – i.e. 2031 in the case of a 2014-2020 OP.

Interestingly, with specific regard to JESSICA, land may be used (exceptionally for Financial Instruments) as a contribution in-kind to investments under ‘Sustainable Urban Development’. The Delegated Acts further specify that land may account for up to 20% of total eligible costs of such an investment (possibly more for investments in environmental conservation), as opposed to 10% for traditional grant financing.

***JESSICA and State Aid***

The very nature of JESSICA is to address market failure and in so doing it provides public support to private investment under a variety of possible conditions, which are more favourable than normal market rates. JESSICA is therefore in the business of awarding State Aid to private operators involved in urban development projects. As with all State Aid, provided it is within the limits prescribed by EU Competition Policy Regulations for different sectors and geographical areas, or notified separately to the Commission and approved, it is permissible.

However, whilst the EU Framework of State Aid rules may be relatively clear and predictable for investments in SMEs, in which other types of Financial Instruments specialise, for JESSICA type Instruments things are less clear. Because of the wide range of investment fields which JESSICA may address in an urban development context, UDFs may need to take individual account consecutively of State Aid rules, say, for regional aid, culture and heritage, training, SMEs and environmental protection to name but a few. This has made State Aid compliance a particularly difficult area for JESSICA and has led to long delays (e.g. over 2 years) in setting up JESSICA type Instruments in many Member States.

The 2011 Strathclyde University study of financial instruments*[[2]](#footnote-2)* identifies three main possible ways forward for State Aid compliance for Financial Instruments, as summarised in the box below.

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| **Financial Instruments  Options for State Aid compliance Source - EPRC Strathclyde University 2011**   * Design measures such that ***no aid*** is involved   *No prior approval, but requires confidence - failing to notify a measure that constitutes incompatible aid has serious consequences*   * Design measures to ***fit with GBER*** (General Block Exemption Regulation)   *No prior approval, but GBER dictates form, amount and focus of measures and may be too inflexible to deliver policy objectives*     * Opt to ***notify Financial Instrument conditions to the European Commission***   *Need to await approval prior to implementation. Often lengthy delays and uncertain outcome* |

Designing a Financial Instrument which does not contain any element of aid may appear to be the simplest option, but it is highly likely that the result would be an Instrument which is not able to address market failure as distinct from existing financial sector operators. Complying with the General Block Exemption Regulation (GBER) on State Aid offers an established framework which avoids notification to the Commission but, as highlighted above, this can be very complex in the case of JESSICA. Notification to the Commission of the specific aid foreseen under a Financial Instrument can be lengthy process with no guarantee that the aid will be approved.

For 2014-2020 there may be some improvement in the hitherto less than encouraging State Aid picture for JESSICA. Firstly, within the framework of State Aid Modernisation, the GBER is to be revised and may provide more user-friendly conditions for sustainable urban development. Apart from simplification, aid for culture and heritage conservation and for sport and multifunctional recreational facilities will be new exempted categories while aid for investment in district heating and for reclamation of derelict and contaminated sites will be eligible for exemption[[3]](#footnote-3).

Secondly, there may be a breakthrough in the way notified aid for JESSICA type Instruments is assessed by the Commission. This is based on two recent precedent cases - JESSICA UK North-West and JESSICA Andalucía. In the absence of a comprehensive framework of guidelines for State Aid relating to urban development (in contrast to support for enterprise) the proposals were assessed directly against the EU Treaty (Article 107(3) TFEU). Here the Commission assessed and balanced positive and negative effects of aid in the proposed JESSICA Instruments. Rather than calculating exact amounts of aid foreseen, a much simpler ‘fair rate of return’ concept was used in order to limit advantages to co-investors.

The urban development project investments are not the only place where State Aid issues can occur in JESSICA type Instruments. EC DG Competition also identified possible aid arising in the fund itself, in cases where private co-investors might receive preferential treatment compared to their public sector counterparts. Remuneration of fund managers above market rates has been identified as another possible source of aid. Generally, the former issue is addressed by ensuring *pari passu* conditions in equity participation funds in particular whereby the public and private sector partners must derive equal benefits from the operation of the fund. As regards the latter, possible aid to fund managers is addressed by the requirement for public tendering of any Financial Intermediaries to be involved in managing JESSICA type Instruments.

3. JESSICA Experience from 2007-2013

3.1 Extent of Use

The deployment of JESSICA in 2007-13 has been modest compared with Financial Engineering Instruments (FEIs – the pre-2014-20 terminology) directed at enterprises. To the end of 2012, some €2.1bn had been allocated from Operational Programmes into 76 FEIs (56 urban regeneration FEIs, 1.5bn; 20 energy efficiency / renewable energy FEIs, €0.3bn)[[4]](#footnote-4). This compares with €10.5bn allocated to 864 enterprise FEIs.

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| --- | --- | --- | --- | --- | --- | --- |
| **OP resources by Member State allocated to Financial Engineering Instruments 2007-13** | | | | | | |
| **Country** | **Urban Development** | | **Energy Efficiency / Renewables** | | **Total** | |
|  | **No of FEIs** | **OP Contribution (€m)** | **No of FEIs** | **OP Contribution (€m)** | **No of FEIs** | **OP Contribution (€m)** |
| BG | 3 | 33.00 | 1 | 6.38 | 4 | 39.38 |
| CZ | 1 | 20.58 | 1 | 24.47 | 2 | 45.05 |
| DE | 3 | 32.78 |  |  | 3 | 32.78 |
| DK |  |  | 2 | 8.31 | 2 | 8.31 |
| EE |  |  | 1 | 49.74 | 1 | 49.74 |
| EL | 6 | 258.00 | 2 | 241.00 | 8 | 499.00 |
| ES | 4 | 215.62 |  |  | 4 | 215.62 |
| IT | 5 | 170.00 | 6 | 93.37 | 11 | 263.37 |
| LT | 5 | 149.41 |  |  | 5 | 149.41 |
| NL | 2 | 0.00 | 1 | 0.00 | 3 | 0.00 |
| PL | 12 | 259.85 |  |  | 12 | 259.85 |
| PT | 4 | 130.00 |  |  | 4 | 130.00 |
| UK | 11 | 372.65 | 6 | 20.83 | 17 | 393.48 |
|  | 56 | 1641.89 | 20 | 444.1 | 76 | 2085.99 |
| Source: DGs REGIO and EMPL 2013 | | | | | | |

Although JESSICA Evaluation Studies have been completed in 23 Member States, the EC report at the end of 2013 recorded urban development and energy efficiency FEIs as being active in only 13 Member States, of which 5 had become EU Members since 2004.

The average OP contribution per FEI is in the region of €27m (€29m for urban development FEI and €22m for energy efficiency / renewable energy funds). By country however, the average OP contribution by FEI varied quite widely, ranging from €4m per FEI in Denmark to €62m per FEI in Greece[[5]](#footnote-5).

The vast majority of specific funds are implemented with holding funds. In the case of holding funds for urban development, only in Germany is the holding fund operated by another entity than the EIB.

3.2 Scope and Scale of Investments

The 2013 Summary Report on Financial Instruments (based on data to the end of 2012) provided very limited information on the extent of investment under JESSICA. At that time just under half of the resources allocated from OPs to urban development (44%) and energy efficiency funds (55%) remained with holding funds. Similarly, EPRC reporting on case study research in early 2012[[6]](#footnote-6), noted that few investments had taken place at that time.

Slow progress in committing the large amount of funds committed to JESSICA instruments had been highlighted as a critical issue in mid-term evaluation of Operational Programmes in the UK[[7]](#footnote-7). It was considered that there was a significant risk that substantial sums might have to be de-committed late in the life of the Programmes with limited prospects for recycling the funds into alternative projects at short notice. Accordingly, enquiries were made in Scotland and in the North West of England concerning recent progress.

In Scotland, £11.7m of a £50m fund has been invested in two projects to date:

* a £2.1m investment towards a £3.2m project to develop 4,000m2 of industrial units and flexible business space to SMEs on a brownfield site in North Lanarkshire;
* a £9.6 m investment in a £50m project to create 13,000m2 of Grade A offices in Glasgow City Centre where the market would not deliver the highest environmental standards (BREEAM) without public support in the current development climate.

The Scottish Government noted that the Fund Managers had a pipeline of projects and remained optimistic about placing the remaining funds by 2015.

In North West England, where two £50m urban development funds were created, it is reported that the UDFs took time to become established and to develop a pipeline of projects. The UDFs have made a number of investments to date and have a strong pipeline to commit the remaining allocation within the timescales.

In both instances, there is interest in using the JESSICA mechanism again in 2014-20.

A recent study for EC DG Regio by the European Association for Information on Local Development (AEIDL)[[8]](#footnote-8) examined a small number of case study UDFs in Denmark, Poland and the UK. The study noted in particular the detrimental effects of the recent financial crisis on the operations of these Instruments due to greater unpredictability in the cost of money and the returns available from completed investments. It also sounded a note of caution as to the potential viability of JESSICA type Instruments for financing comprehensive area-based development activity. The study concluded that for such an integrated approach to be successful, the JESSICA type fund - which can only finance profitable near-market type investments – usually needs to work together with traditional grant funding in urban areas confronted with more severe development challenges.

A summary of the AEIDL study findings about JESSICA type funds is set out in the box below.

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| **Some conclusions – role of JESSICA type funds Source AEIDL – 2013**   * JESSICA-type funds are most likely to be of benefit for projects that are near to market viability - these **projects can make a return for an Urban Development Fund while still being too risky for the private sector** * JESSICA-type funds are likely to be used mostly to make investments in **individual projects** rather than to finance the whole of a comprehensive area-based approach made up of many complementary projects * It is likely that the **JESSICA-type funds will selectively invest in the more financially viable projects**, leaving other key elements of a master plan such as transport, the public realm and social investments to the public authorities * Large and complex developments are likely to require a **mixture of grants, loan and equity instruments** rather than a single Urban Development Fund * JESSICA-type funds **can free up grant money** in programmes by investing in commercial property * There will still need to be **grant funding to make more difficult brownfield sites viable** |

4. Investment conditions in Croatia

4.1 Croatian Commercial Property Market

As noted above, JESSICA needs to operate in the context of a market mechanism. Hence the extent of property market interest and the existence of market failure are prerequisites for its use in the context of commercial property markets.

The situation in the Croatian Commercial property market was explored though review of market reports and consultations with property professionals and commercial banks. A high degree of consistency was encountered in the perspectives obtained:

* with Croatia in a fourth year of recession, commercial property development activity is presently at a very low level;
* pre-recession, there were wide variations by location and market segment in the existence of a functioning commercial property market.

A composite overview by market segment, based on the findings of the fieldwork is set out below.

**Prime Office[[9]](#footnote-9).** There was a buoyant speculative prime office market in Zagreb prior to the recession, with modern office floorspace increasing from around 350,000m2 in 2005 to 1.25m2 in 2013[[10]](#footnote-10). The market is now significantly oversupplied and occupancy of Class A floorspace is of the order of 65%. As a result, rents have dropped from c. €18 / m2 to €12 / m2 or less. There is no new activity and with a substantial overhang from the last property cycle, none is foreseen in the near future.

There was no prime office development outside of Zagreb, pre-recession. Property professionals differ in their view of potential for a limited prime office development in Split. No potential is perceived in other centres.

**Secondary Office.** There were buoyant Secondary Office markets in Zagreb, Split and Rijeka prior to the recession. Some of this activity was on the basis of refurbishment rather than new build. All of these markets are now experiencing oversupply and downward pressure on rentals. There is a big gap between prime and secondary rentals.

There was only very limited secondary office development in Osijek and other locations pre-recession. This was more refurbishment than new build. Such developments mainly undertaken by established local companies for their own use or by national businesses (particularly financial sector) developing a branch network. In such circumstances the developer may create more floorspace than needed for own use or for the anchor tenant and the local market may get the offer of the surplus. However, this level of activity is not viewed by property professionals as a functioning market.

**Small Office / Workshop.** Even prior to the recession, rentals of this class of property in Zagreb were insufficient to cover development costs. Local government is perceived not to be active in supply in the absence of a commercial market. Across Croatia, these are mainly legacy premises, bought and refurbished for own use.

**Industrial / Logistics**. It was reported that during the last property cycle, activity in the industrial and logistics segments was limited to a small number of projects in, and within the vicinity of Zagreb. Uncompetitive development taxes, water and communal rates were perceived by one property services provider to have deterred development in the industrial segment, in particular.

In a situation of constrained supply, industrial and logistics rentals are above average for South-east and Central Europe. Logistics is reported to be the subject of current developer interest following Croatia's accession to the EU. Potential is seen both in Zagreb and in Rijeka.

**Retail**. The four cities experienced a significant expansion of retailing space during the property boom and currently this is the only active development segment. Although the market in Zagreb and surrounding area is highly saturated, niche opportunities are still being developed. Shopping Centre developments are currently proposed or in development in Osijek and in Split and in secondary centres such as Dubrovnik.

Position in the property cycle aside, the scope for commercial property development across Croatia is conditioned by market density and the size distribution of businesses. Most companies operating in the medium and smaller towns are old companies or very small companies working out of apartments, etc. Property professionals see limited possibility of developing outside of Zagreb without an anchor tenant (e.g. bank or insurance company) on a long lease.

4.2 Urban Development Aspirations

Every city in Croatia with population over 35,000 will be required to prepare an integrated sustainable urban development strategy. This first basic pre-condition for JESSICA to operate in Croatia’s larger urban areas should therefore be fulfilled.

As part of the research undertaken for Task 1.1 – *Analytical Study on Sustainable Urban Development*, a questionnaire survey elicited responses from some 43 Croatian towns and cities regarding their views on urban development projects which they could potentially bring forward for financing in 2014-20. Out of a total of 361 project ideas, 235 came from cities with population over 35,000.Of these, 53 project ideas were assessed to have some JESSICA potential.

Our initial analysis of possible strength of JESSICA potential of these project ideas, by size of urban area is set out in the table below.

Some smaller towns with less than 35,000 population also shared project ideas of a type which could theoretically be financed through a JESSICA type Instrument. These, however, are not included in the table due to doubts in their viability for JESSICA type financing because of likely small size.

|  |  |  |
| --- | --- | --- |
| *Extract from Sustainable Urban Development survey – May 2014*  **Initial assessment of JESSICA potential of project ideas expressed by Croatian urban areas** | | |
| **Size of urban area** | **High JESSICA potential** | **Medium-low JESSICA potential** |
| Large cities (pop. > 100,000) | 4 cases highlighted  Example:   * *Congress centre* | 22 cases highlighted  Examples:   * Port development * Business zones * University campuses * Historical centre regeneration * *Parking garages* |
| Medium cities (pop. 35,000 – 100,000) | 13 cases highlighted  Examples:   * Technology/innovation centres * Gateway business zones (inc. brownfield) * Green buildings for business * *Theme park type tourist attractions / marinas* * *Mixed developments – congress centre / sports facilities* | 14 cases highlighted  Examples:   * Port development * Smaller business areas * University campuses * Area regeneration * Tourist attractions/facilities * Waste recycling facilities * *Parking garages* |

It must be pointed out, however, that some of the above project ideas expressed by the cities and towns (e.g. non-heritage related tourism, parking garages etc.) may on, if not over, the border of eligibility as regards the EU specification of Investment Priorities for 2014-2020. Project ideas felt to be in this category are shown in italics in the table.

4.3 Partnership of the Public and Private Sectors.

An essential characteristic of the JESSICA financial instrument is its operation in the context of partnership between the public and private sectors, both in the creation of Urban Development Funds and in the delivery of funded projects. Against this background, the consultations explored the experience of public and private sector partnership in relation to the property market and other public investments.

Consultees reported on the distinctive relationship between the public sector and private sector development interests in Croatia. It was noted that development interests engage with the public sector with a view to securing their commercial objectives, for example in relation to planning approvals. Indeed, the planning system was highlighted as being malleable to commercial interests. It was stated, for example, that the pattern of office development in the past decade deviated significantly from the zoning priorities in the Zagreb strategic plan from 2000. Similarly the system of building control was observed as being weak, with unsanctioned building activity having taken place on a substantial scale

It was noted that there was little experience of successful cooperation of the public and private sectors in pursuit of mutual aims, such as local regeneration. In Croatia the concept of planning gain, whereby approvals are granted subject to delivery of community benefits, is not widely applied at present.

The most prominent examples of public-private partnership in relation to public infrastructure in Croatia have been roads projects managed at national level. There is more limited experience in relation to local infrastructures, although examples highlighted from across the country included water infrastructure in Zagreb, schools and sports facilities in Varaždin, a polytechnic in Velika Gorica sports facilities in Slavonski Brod and public transport infrastructure in Rijeka. Not all projects of this type have been successful. It was reported that some projects have simply lacked economic sustainability; others have not been managed sustainably.

Capacity within local government to negotiate and manage complex projects was perceived to be limited outside of Zagreb. Both property professionals and banks highlighted examples where they considered that the public sector still has to learn to engage with the private sector. Such examples have implications for the successful potential use of JESSICA and other public-private joint ventures in terms particularly of:

* rigour and objectivity in cost benefit analysis in developing projects that they want the private sector to fund;
* realism in assuming prospective commercial returns and risks;
* awareness of the market possibilities in specifying the funding period for projects;
* appreciation of the possibilities for hedging project risks, allied to the use of full-life costing.

4.4 Orientation of Banks and Institutional Investors

Operation of conventional public-private partnership models involves the private sector in delivering a funding package as part of a tendered bid. Both the contractors and financial institutions involved tend to be specialised and to have substantial experience of the types of project with which they are involved.

The JESSICA financial instrument differs from the conventional public-private partnership model, involving at fund level more general investment interest, notably from banks, and at project level more speculative developer interest. Engaging investor interest of this type would be instrumental in the successful use of the JESSICA model.

The main investors in commercial property in Croatia highlighted during the interviews carried out were:

* Austrian banks;
* Austrian, Israeli and to a lesser extent German developers, sometimes in the form of consortia of high net worth individuals;
* Insurance companies which are obliged to hold a proportion of their portfolios in property.

It was reported that there is no substantial institutional investor market in Croatia at this stage that developers can sell completed projects into. Croatian pension funds were seen to be passive and their legal capacity to invest in property was questioned.

It was found that the commercial banks have a good awareness of European Funding and interest in the commercial possibilities. Their role to date has been primarily been in providing cash flow for projects. High intervention rates were said to have been an obstacle to their involvement in funding investment costs.

The commercial and national development banks are experienced in lending to local government for investment in infrastructure, although some are clear that it is not their core market. All were prepared to consider proposals from local authorities throughout Croatia. Good management and financial capacity in relation to the project of interest were considered more important than the size of the Local Self-Government Unit.

However, potential is seen to be limited in the smaller towns by a combination of the legal restriction on borrowing (local authorities are permitted to use up to 20% of their annual budget for repayment of loans) and the small budgets available to the smaller authorities. Some rural municipalities were noted by the banks consulted as having annual budgets less than €0.5m.

While the risk of outright default in this market was considered to be low, individual projects could run into difficulties and require intensive and expensive management. Banks are sensitive to reputational risk.

4.5 Capacity to Operate a JESSICA Urban Development Fund

The possibility of operating the JESSICA financial instrument in Croatia raises questions concerning the potential locus of one or more urban development funds and the involvement of the European Investment Bank.

The consultations revealed the existence of a good core of relevant skills and a high degree of professionalism within the property and financial services sectors that could potentially be drawn upon or packaged in operating JESSICA in Croatia.

Property professionals noted an absence of activity of portfolio-based property investment managers in the Croatian market at this time, but some interest in establishing this kind of operation was noted by a combination of property professionals and developers.

Commercial banks would be open to considering involvement as investors in Urban Development Funds. They also felt that they possessed the necessary skills to operate an Urban Development Fund. However, there was some doubt that this would be a priority for them given their core market interests and the present demands on their capacity in adjusting their operations to the post-accession commercial environment.

HBOR, with whom the commercial banks reported a good working relationship, was considered to have potential in this area – also possibly for the management of a JESSICA type holding fund. HBOR itself noted that while its current core business is more with smaller clients and SMEs, it is currently exploring options for significant restructuring and capacity increase.

5. Financial Instruments to promote investment in energy efficiency and renewable energy

Thematic Objective 4 *Promoting the shift to a low carbon economy in all sectors* is likely to herald a substantially higher investment in energy efficiency and renewable energy than has hitherto been the case under EU programmes. A detailed study carried out in 2010 by the Energy Institute of the Commission’s ISPRA Joint Research Centre[[11]](#footnote-11) identified a number of key problem areas associated with project financing in this sector, including the following:

* high pre-investment development and transaction costs and long payback periods;
* lack of customer awareness, high perceived risk of new more efficient technologies by both users and financiers and a mistrust in energy audits;
* general lack of energy efficiency financing experience within commercial financial institutions and high perceived end-user credit risks;
* long marketing cycles associated with selling energy efficiency and low collateral asset value of energy efficiency equipment;
* reluctance or impossibility for property owners to finance projects on-balance sheet, whilst cash flows from saving energy not considered conventional revenues in what is still an asset-based culture in financing.

Whilst on the one hand these factors reflect important market failures which EU-funded Financial Instruments could address, on the other hand they can constitute barriers to their successful operation depending on conditions in the Member State concerned. This is a relatively new area for EU-supported Financial Instruments. The European Commission’s summary up to the end of 2012[[12]](#footnote-12), referred to earlier reported only 20 specific funds dedicated to energy-related investment in 8 Member States. Of these, only 4 funds were created within a holding fund structure with the remaining 12 set up as independent funds.

5.1 Energy efficiency investments in public buildings

For public buildings, the JRC study highlights particular difficulties associated with the rules of public budgeting – including the annual budget cycle and multi-annual savings cash flow – which make it difficult for public entities to finance energy efficiency investments from savings in energy costs. Local authorities, for example, may have to finance energy efficiency investments from their investment budget whereas the resulting savings are credited to the operational budget. An additional problem identified is the lack of consideration of full life-cycle costs in public procurement decisions. Collectively these issues point to a need for a special approach to financing energy efficiency investments in public buildings.

Our research found only limited EU-funded Financial Instruments’ involvement currently in energy efficiency in public buildings, although there are notable examples in Spain (FIDEA - <http://europa.eu/rapid/press-release_BEI-11-99_en.htm>) and UK (London Energy Efficiency Fund - <http://www.leef.co.uk/> ). Both examples operate under a JESSICA Holding Fund structure and also support broader portfolios of energy efficiency investments, such as in public transport and private sector projects. As regards energy efficiency projects in public buildings, they are generally geared to provide either equity or preferential loan assistance via Energy Service Companies (ESCOs).

ESCOs are private companies, which form partnerships with public building owners or managers to provide a range of energy refurbishment and maintenance services – including introduction of methods and technologies for reducing energy consumption and/or replacing the consumption of fossil fuels with renewable energy sources - as well as finance and guarantees where necessary. ESCOs receive payment for the energy savings they generate often through Energy Performance Contracts (EPCs). An EPC is a contractual arrangement between the public partner and the provider (normally an ESCO) of an EE improvement measure, where payments are made based on a contractually guaranteed level of EE improvement and energy cost savings. Under an EPC, the public partner contracts the private partner for a specific result (e.g. energy savings in kw/h) rather than for specific products or services[[13]](#footnote-13), hence there is a genuine sharing of risk.

Both the Spanish and London examples referred to above operate in countries with *premier league* ESCO markets. Yet they both also include Technical Assistance teams financed under the ELENA facility[[14]](#footnote-14) to provide expert advice and support to local authorities, universities and hospitals in carrying out feasibility studies, setting up partnerships with ESCOs and making applications to the fund. ELENA was created in 2009 under the Commission’s Intelligent Energy Europe (IEE) II programme and provides technical assistance grants (of up to 90% of eligible costs) to local and regional authorities for development and launch of sustainable energy investments. IFIs, such as the EIB, KfW and EBRD are actively involved in the ELENA facility.

In addition, the leading IFIs provide preferential financing for ESCOs independently of EU Financial Instruments and both inside and outside the framework of ELENA. The EBRD, for example, is increasingly active in ESCO financing in newer Member States, with recent long-term loan and guarantee packages concluded directly with ESCOs in Czech Republic, Romania and Bulgaria. This kind of direct action by IFIs is more common in countries where the ESCO market is less developed. IFI financing of ESCOs can still be combined in these countries with grant assistance from EU-funded Operational Programmes.

The Croatian EPC market is still at an early stage of development, with only one ESCO currently active in the market[[15]](#footnote-15). Moreover, delegates at an awareness raising event held in March 2013 in Koprivnica by ManagEnergy (IEE-funded technical support initiative) reported that although there is potential for the EPC model to be used more widely in Croatia, there is still a mix of lack of knowledge, unreliable data and scepticism about ESCOs that all need to be overcome first.

5.2 Supporting energy efficiency improvements in residential buildings

In the residential sector, potential obstacles to successful energy efficiency investments identified by the JRC study include uncertainties related to tenant-owner and building ownership issues, as well as ambiguities in the legal standing of apartment owner associations and onerous decision-making due to a large number of decision makers. Also mentioned is a traditional lack of support from banks and other financial institutions for holistic retrofits in residential buildings. However, against this background, many more of the energy-related EU-financed Financial Instruments in existence in the Member States are focused on promoting improvements in residential buildings. Two successful examples of this type of fund can be seen in the new Member States Estonia and Lithuania.

Estonia’s Renovation Loan Fund for Apartment Buildings was the first of its kind to be established using EU Funds. The €49m Fund is managed by KredEx, a state owned non-profit making guarantee fund. It was set up in 2009 with an ERDF contribution of €17m, a €29m loan from the Council of Europe Development Bank and just over €3m from KredEx. These resources are transferred in eight tranches to two local banks which make loans to housing (i.e. tenant) associations to finance renovation works which improve the thermal performance of the chosen buildings. A wide range of works can be included in the projects, including insulation, replacement of windows and doors, replacement/modernisation of heating systems, introduction of new renewable energy sourced systems etc.

Loan terms under the Estonian fund are as follows:

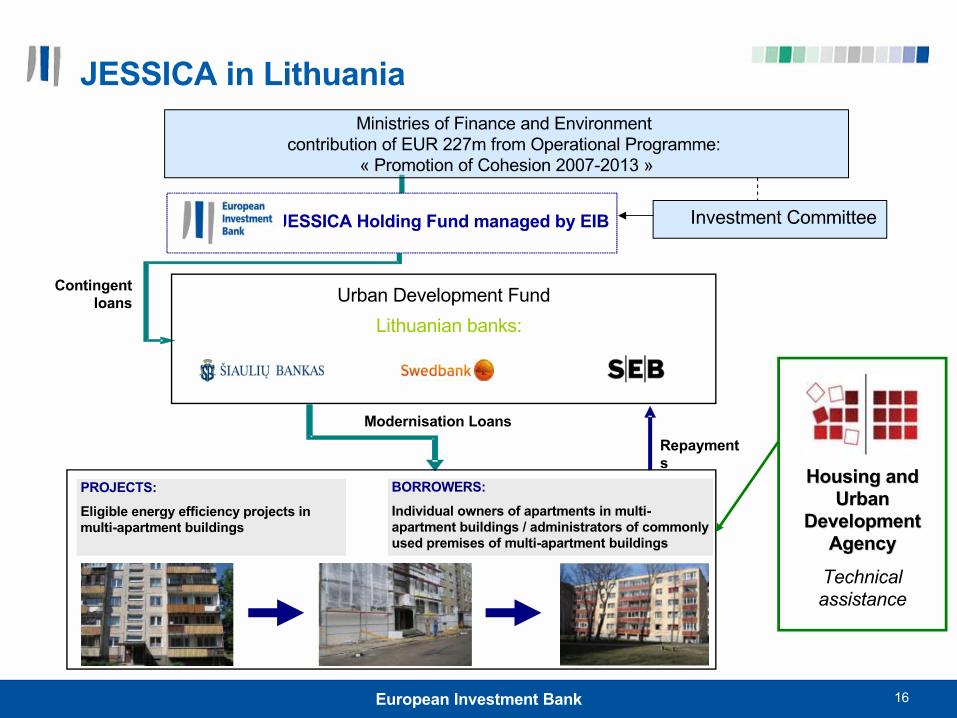
* Self-financing: 15%
* Loan period: up to 20 years
* Interest rate: up to 4.2%, fixed for 10 years (compared to 7-10% on commercial loans)
* Collateral: No collateral is needed as credit is given against cash flow (in case of higher risk the bank can use a guarantee from KredEx)

All of the occupants of the apartment building must agree to undertake the renovation investment. Although this is a key hurdle to overcome at the outset of each investment, 50% of the costs of the subsequent (compulsory) energy audit and production of the building design documents can be supported by a grant from KredEx. Repayments of the loan can often be made completely from cost savings in occupants’ utilities bills.

The investments must achieve a total energy saving of at least 20% for each building, but so far an average of around 40% energy savings have been achieved by the fund overall. Comprehensive information about Estonia’s Renovation Loan Fund for Apartment Buildings can be found at <http://www.aeidl.eu/en/projects/urban-development/rejuvenating-an-ageing-city.html>. The project was also presented at the Covenant of Mayors Sustainable Energy Finance and Investment Summit Croatia, in Cavtat, in October 2011.

Unlike the Estonian project, the Lithuanian fund for Energy Efficient Housing Renovation was established under a JESSICA holding fund managed by the EIB. It is a substantially larger fund, with €227m ERDF contribution and no domestic public contribution. Private is attracted to the fund via the domestic and Scandinavian banks through which the loans are awarded.

Otherwise, the loan conditions and requirements are similar to those of the Estonian fund, although there is an additional 2-year grace period during construction before loan repayments need to begin. Technical assistance is provided up to 100% through the Housing and Urban Development Agency to cover studies and design work. Similar problems exist too, in particular the requirement for all building occupants to agree to taking on the loan before the renovation investment can take place. Yet again, the bulk of loan repayments can still be sourced from residents’ energy bill savings. The Lithuanian fund is also able to offer special repayment terms for low-income families – up to 100% reimbursement of their instalments.



Source – EIB 2013

One of the main attractions of the holding fund model is the potential economy of scale which can be achieved and related possibilities to offer better conditions for Final Recipients. Other obvious advantages include the potential to adjust resource allocations between different UDFs depending on market-related constraints and opportunities arising.

Due to the apparent success of the scheme so far, the EIB decided to award an additional loan of €40m to the fund in September 2013 <http://www.eib.org/about/press/2013/2013-136-further-support-from-eib-for-energy-efficient-housing-renovation-in-lithuania.htm>. Yet despite the comparatively large scale of the Lithuanian fund, its progress remains modest in comparison to the number of apartment buildings requiring substantial thermal renovation. Although by mid-2013 some 200 buildings had signed up for loans from the fund, there are over 24,000 multi-apartment buildings in Lithuania constructed prior to 1993, which have significant thermal renovation needs.

***EU ‘off-the-shelf’ Financial Instrument for energy efficiency investment***

It is interesting to note the Commission’s faith in the possibilities for relatively simple Financial Instruments in the residential energy efficiency sector. One of the Commission’s proposed *off-the-shelf* Financial Instruments for 2014-2020 under (draft) Implementing Acts is precisely this – a Housing Energy Efficiency Loan Product … *‘An instrument offering preferential loans to natural and legal persons or independent professionals owning premises (apartment, social housing or individual household), as well as administrators or other legal bodies acting on behalf and for the benefit of the owners in order to undertake renovation works that are eligible for ESIF support*.‘

<http://ec.europa.eu/regional_policy/what/future/pdf/preparation/262709_ia_3_draft_standard_terms_conditions_financial_instruments.pdf> (see from Page 39).

The Commission’s Housing Energy Efficiency Loan Product aims primarily at multi apartment buildings where the energy saving potential of renovation is significant but where apartment owners still need appropriate incentives. These can take the form of complementary grant assistance, long term subsidised loan conditions and upfront advisory support and funding to prepare and implement “full envelope” building renovation projects.

The off-the-shelf instrument also assumes a financing market in which banking intermediaries are essentially the only source of funding, but where this funding is either too little (due to the risk appetite of the intermediary), too short term, too costly or otherwise inappropriate for the long term payback nature of the projects being financed.

Having studied the Estonian and Lithuanian examples above, the characteristics of the proposed Housing Energy Efficiency Loan Product look strikingly familiar – encompassing, in addition to preferential loans with fixed annual interest rates, possibilities for financing technical assistance, loan payback potential generated through the savings on energy bills, options for special conditions including loan payback rebates for households of particular categories etc. A maximum loan amount per Final Recipient of €50,000 is estimated in the Commission’s current draft. The draft also contains the possibility for this amount to be rebated on production of documentary evidence that the refurbishment has achieved a given energy saving standard.

As regards State Aid, the off-the-shelf Instrument is designed primarily as a ‘No Aid’ scheme operating under the "de minimis" rule. All the aid is transferred to the Final Recipients – i.e. the apartment owners (natural and legal persons or independent professionals). The Gross Grant Equivalent of the aid – the loan subsidy, plus any grants for technical assistanceand/or rebates - must be under the ceiling of €200,000 per Final Recipient over three years. Special attention will need to be paid on compliance with this condition in cases where the owner is a landlord and/or derives profit from the sale of energy generated from renewable sources supported by the loan.

|  |
| --- |
| **EC proposed off-the-shelf Financial Instrument for 2014-2020**  **Housing Energy Efficiency Loan Product**  ***Draft of 16.09.2013***  Eligible expenditure (example list of type of works that can be financed)   * Preparation and implementation costs of the part of the project relating to the energy efficiency or renewable measures * Major repairs or replacement of heating and hot water systems: * Replacement or refitting of the heating substation or the boiler house (individual boilers) as well as hot water preparation systems * Installation of balancing valves for stands * Improvement of heat insulation for pipes * Replacement of pipes and heating devices * Installation of individual heating measurement system and thermostatic valves in apartments * Replacement or refitting of hot water system pipes and installations * Replacement or refitting of ventilation system * Replacement of windows and entrance doors: * Replacement of windows * Replacement of entrance doors * Roof insulation, including construction of a new sloping roof (excluding construction of premises in the attic) * Insulation of façade walls * Insulation of cellar ceiling * Installation of alternative energy sources (sun, wind, etc.) systems * Major repairs or replacement of elevators by replacing them by more energy efficient elevators * Replacement or repair of the common use engineering systems of the building (sewage system, electric installations, fire prevention installations, drinking water pipelines and installations ventilation system). |

Indicators for the Housing Energy Efficiency Loan Product would need to be aligned with those for the OP financing it the financial instrument in Member States which choose this option, as well as with the ex-ante assessment carried out. The Commission’s current draft lists the minimum applicable indicators as follows:

* Number and volume of the loans
* Renovated multifamily houses (Number, size)
* Renovated multi-apartment buildings (Number, size).
* Increase in energy efficiency in houses and buildings (Savings)

The Commission’s off-the-shelf instrument is designed for use either as a stand-alone fund, or in conjunction with a larger holding fund structure.

6. Conclusions and Recommendations

6.1 Conclusions

Across the EU, JESSICA is in its first period of operation and has yet to be fully evaluated. The name ‘JESSICA’ will be dropped for 2014-2020, but the approach remains open for the new Financial Perspective. It is actively encouraged by the Commission as a means to enhance value for money of ESI Funds and increase sustainability of interventions under the future OPs.

JESSICA’s deployment so far has been challenging even in EU Member States with a substantial history of public-private cooperation in the fields of investment that comprise sustainable urban development. Once funds have been created they have, overall, been slow to invest. In many cases, 2013-2015 seem likely to be the largest investment years, but the actual absorption achieved will not be clear until 2016-17.

***Urban Development Instruments***

The research indicates that commercial property markets are not fully functional across Croatia. However, this appears to be at least as much an issue of *absence of demand* as of *market failure*.

The current depressed state and oversupply in the property market in and around Zagreb suggests an absence of market failure in the prime and to a lesser extent the secondary office market. The experience of the past decade suggests that in a buoyant market, the market will deliver. However, the mismatch of development costs and rentals in the tertiary market in Zagreb is suggestive of market failure and it is also likely to occur in renovating heritage buildings for the secondary office market where costs can exceed those of new build. This could be a potential focus for JESSICA.

The comparatively thinner markets in other locations, combined with risk aversion may result in latent demand being unmet. Public and private joint venture, potentially involving JESSICA, could bring forward development that is considered by the private sector to be at the margins of viability, the extension of prime office development to Split, for example.

The range of development needs and aspirations identified through the survey of towns undertaken in Task 1.1 - *Analytical Study on Sustainable Urban Development* includes a substantial number that fall within the so far conventional typology of JESSICA-funded sustainable urban development. However, some of these potential projects appear to be on, or over, the eligibility boundary of the 2014-2020 TOs and Investment Priorities. The precise limits of scope for any future JESSICA-type Instrument in Croatia will not be known for certain until approval of the relevant OP(s).

Across Croatia's large cities and medium towns, the robustness of current investment proposals as a project pipeline should not be overestimated. The political, market, financial and economic viability of many of these project concepts has yet to be tested. Croatian cities’ experiences with public-private partnerships has so far been mixed.

At present, there is no portfolio-based property and infrastructure investment approach analogous to JESSICA in operation in Croatia. Nevertheless, the necessary technical and financial skills appear to be present within Croatia's private sector property and financial services community. There is tentative interest on the part of commercial banks in becoming involved in creating a JESSICA fund. Were the management of a JESSICA type Urban Development Fund to be put out to tender, responses obtained from our research suggest that it is likely that bids would come forward from within Croatia (possibly involving international support in the case of multinationals represented in Croatia). As regards domestic financial institutions, HBOR appears best placed to be the locus for a Holding Fund mechanism. This role can also be played by an International Financial Institution.

By comparison, involvement with JESSICA appears more challenging for the public sector. The limited extent and nature public and private collaboration in the field of urban development, alongside limited experience of formal public-private partnership mechanisms suggests that the successful deployment of JESSICA would require a step-change in culture and in technical capacity. Nevertheless, JESSICA could be instrumental in bringing about such a change and, indeed, this has been an objective in other Member States.

The limited capacity and fragmentation of local government outside of the cities and larger towns suggests that potential to operate JESSICA is spatially constrained. Evaluation of ISPA and Cohesion Fund in 2000-06 highlighted the challenges for small local government units in negotiating and managing once-in-a-generation infrastructure projects[[16]](#footnote-16).

A single Urban Development Fund, covering the large and medium-sized towns with approved Integrated Sustainable Urban Development Strategies would appear to be the most suitable model for Croatia. Indications are that JESSICA investments tend to be based upon discrete projects where the necessary conditions can be demonstrated to apply rather than packages of projects comprising a comprehensive approach to area development.

One of the main benefits of JESSICA and financial instruments in general is their ability to lever in additional funds in a situation where resources would otherwise be rationed. The capacity of the Croatian development system to absorb the much higher levels of resourcing shortly to be available through the ESI Funds has yet to be demonstrated. Croatia's experience with pre-accession funds and those of several New Member States in 2007-13 suggests a need for caution. It may be more appropriate for Croatia to devote its capacity towards absorption based upon conventional urban and infrastructure funding mechanisms rather than dissipating capacity (including that within private sector professional and financial services) in fringe instruments.

The experience of efforts in 2007-13 to develop JESSICA on the basis of non-aid schemes is not positive. Moreover, the current GBER has proved insufficiently flexible where urban development schemes are concerned. Notwithstanding the revisions expected to the GBER, the most suitable approach for JESSICA would appear to be a systematically developed and notified scheme.

While Croatia has more pressing administrative challenges to address, a decision now not to proceed with JESSICA would effectively exclude this type of instrument from the national market for a decade. While capacity may be lacking now; it could potentially be marshalled in the 4-5 year period that is likely before investments are ready to come forward for JESSICA funding.

***Instruments for energy efficiency and renewable energy investments***

EU-funded Financial Instruments to support energy efficiency in public buildings are so far confined to Member States where there are mature ESCO markets and in this context operate to address residual market failures. Given the early stage of ESCO market development in Croatia, we conclude that it is probably too early for Croatia to establish a Financial Instrument to support energy efficiency in public buildings.

As regards residential buildings, however, we feel that there may be more immediate potential for Croatia to use an EU-funded Financial Instrument for energy efficiency investments. This conclusion is supported by evidence of successful operation of funds of this type in new smaller Member States. It should be borne in mind, however, that the countries in question – Estonia and Lithuania – exist in more extreme climatic and energy supply conditions than Croatia and urban populations are generally more in tune with the energy saving ethic. The fact that the Commission is promoting an off-the-shelf instrument in this field for 2014-2020 could potentially offer a genuine simplification in the set-up and operation of such a fund.

* 1. Recommendations

***Urban Development Instruments***

While some of the necessary conditions appear to be in place for the successful use of JESSICA in Croatia, considerable uncertainties remain. Accordingly, we recommend a cautious but positive approach as follows. Our recommendations to the Croatian authorities at this stage are to:

* include and highlight the possibility of JESSICA-type financing in formal guidance issued to large cities and medium sized towns on preparing Integrated Sustainable Urban Development Strategies (2014).
* examine in detail the more concrete development proposals articulated through approved Integrated Sustainable Urban Development Strategies with regard to their potential suitability for JESSICA-type funding (2015).
* subject to adequate potential being identified, launch a formal ex-ante appraisal of JESSICA potential and prepare the relevant Instrument(s) in parallel - to be informed by the findings of the appraisal (2016).
* monitor on a regular basis the latest information from other EU Member States on real outturn and absorption – particularly from evaluations of JESSICA in 2007-13 (2016-17).
* if the findings from the formal ex-ante appraisal are positive, Croatia should aim to submit a fully worked-up proposal, for any JESSICA type Instrument planned, for discussion with the Commission in 2017.

Under this scenario, investments by any Instrument set up would be likely to commence around 2019 with a 4-5 year window to commit (i.e. award to projects) 100% of the allocated funding. The allocations to any JESSICA type Instrument planned for a 2014-2020 OP should be tailored accordingly.

***Instruments for energy efficiency and renewable energy investments***

As an alternative to establishing a Financial Instrument to support energy efficiency in public buildings, we recommend that Croatia should establish more direct relationships first with IFIs and technical assistance initiatives such as ELENA to help develop the ESCO market at this early stage. In this way, energy efficiency investments in public buildings could still benefit from EU grant assistance while the ESCO market is being built up, rather than proceeding straight to more complex EU-supported Financial Instruments prematurely.

In relation to residential buildings, we recommend that further consideration is given to the development of an EU-funded Financial Instrument for energy efficiency investments, once the specification of the off-the-shelf instrument in this field for 2014-2020 is clarified. Success, however, would depend to a large extent on Croatian citizens’ attitudes towards the need to invest in energy efficiency.

1. See Fiche No. 9 - <http://ec.europa.eu/regional_policy/what/future/experts_documents_en.cfm#2> [↑](#footnote-ref-1)
2. European Policies Research Centre, 2011, ‘Between Scylla and Charybdis: Navigating financial engineering instruments through Structural Fund and State aid requirements’ (IQ-Net Thematic Paper 29(2). http://www.eprc.strath.ac.uk/iqnet/downloads/IQ-Net\_Reports(Public)/ThematicPaper29(2)Final.pdf [↑](#footnote-ref-2)
3. Source: European Economic & Marketing Consultants GmbH, 2014 [↑](#footnote-ref-3)
4. Source: DGs REGIO and EMPL 2012, Summary report on the progress made in financing and implementing financial engineering instruments co-financed by Structural Funds. [↑](#footnote-ref-4)
5. In this context it should be noted that FEIs as recorded cover holding funds plus funds implemented without a holding fund. [↑](#footnote-ref-5)
6. EPRC 2012, Between Scylla and Charybdis: Navigating financial engineering instruments through Structural Funds and State Aid requirements. [↑](#footnote-ref-6)
7. Fraser Associates 2011, North West England ERDF Operational Programme 2007-13 - Review and Reprogramming of ERDF Investment Frameworks and Re-quantification. [↑](#footnote-ref-7)
8. AEIDL 2013, Urban Development in the EU: 50 projects supported by the ERDF in 2007-2013. http://ec.europa.eu/regional\_policy/sources/docgener/studies/hhpdf/50\_projects/urban\_dev\_erdf50.pdf [↑](#footnote-ref-8)
9. The Prime Office or Class A Office market is conventionally viewed as new or recently developed office space of high specification in prominent locations. [↑](#footnote-ref-9)
10. Source: DTZ, Jones Lang Lasalle Property Market Reports. [↑](#footnote-ref-10)
11. Financing Energy Efficiency: Forging the Link Between Financing and Project Implementation – JRC ISPRA – May 2010. http://ec.europa.eu/energy/efficiency/doc/financing\_energy\_efficiency.pdf [↑](#footnote-ref-11)
12. European Commission - Summary of data on the progress made in financing and implementing financial engineering instruments co-financed by Structural Funds – position at 31.12.2012 [↑](#footnote-ref-12)
13. Guidance on Energy Efficiency in Public Buildings – European PPP Expertise Centre 2012. <http://www.eib.org/epec/resources/epec_guidance_ee_public_buildings_en.pdf> [↑](#footnote-ref-13)
14. <http://www.eib.org/products/elena/index.htm> [↑](#footnote-ref-14)
15. ManagEnergy October 2013 [↑](#footnote-ref-15)
16. EPRC and Fraser Associates for DG Regio 2012: Ex-post Evaluation of ISPA and Cohesion Fund 2000-06 Work Package D. <http://bookshop.europa.eu/en/ex-post-evaluation-of-the-cohesion-fund-including-former-ispa--pbKN3113917/downloads/KN-31-13-917-EN-N/KN3113917ENN_002.pdf;pgid=y8dIS7GUWMdSR0EAlMEUUsWb0000UZQdZKTr;sid=ZBSScGdDIbGSfTTRjo4M1wVmY8eUo2CQYsc=?FileName=KN3113917ENN_002.pdf&SKU=KN3113917ENN_PDF&CatalogueNumber=KN-31-13-917-EN-N> [↑](#footnote-ref-16)