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Investment in the Future

Support in enhancing regional and territorial dimension in
programming documents for EU Funds 2014-2020

IPA2007/HR/16IPO/001-050401

Preliminary needs assessment for using Financial Instrument JESSICA

June 2014

Task 1.4 requirements

Preparation of an initial needs assessment for using the financial instrument JESSICA in financial perspective 2014-2020 in Croatia, within the 'Sustainable Urban Development' approach

Our approach

To provide the necessary information to support a decision on whether and, if so, how to proceed with JESSICA in Croatia

Scope of the Presentation

- an outline of the JESSICA Financial Instrument, its purpose, its operation and its related requirements
- the extent of deployment of JESSICA in 2007-2013 and experiences in its implementation
- appraisal of the market, financial and administrative conditions in Croatia, having a bearing on the feasibility of deploying JESSICA in 2004-2020

Assessment methodology

- Review of published material on JESSICA
 - including evaluations and materials from the JESSICA Support Platform
- Consultations with relevant OP managers in the UK and Lithuania
- Appraisal of the functioning commercial property market across Croatia and market conditions
 - including interviews with property market professionals
- Consultations with Croatia's large cities and medium-sized towns on investments that could be supported with JESSICA type Instruments
- Interviews with Croatian financial institutions

JESSICA: What is it?

- A tool to improve access to finance for investments in sustainable urban development
- More cost-effective use of ESI Funds than grant-based project funding
- A combination of public and private funding delivered in the form of:
 - Loans
 - Guarantees
 - Equity
- Involves creation of Urban Development Funds and possibly a Holding Fund

JESSICA

Joint European Support for Sustainable Investment in City Areas



Source – European Investment Bank

JESSICA: What Can It Fund?

- 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
- Energy from renewable sources

Land up to 20% of total eligible costs possible as in-kind contribution

JESSICA: Essential Characteristics

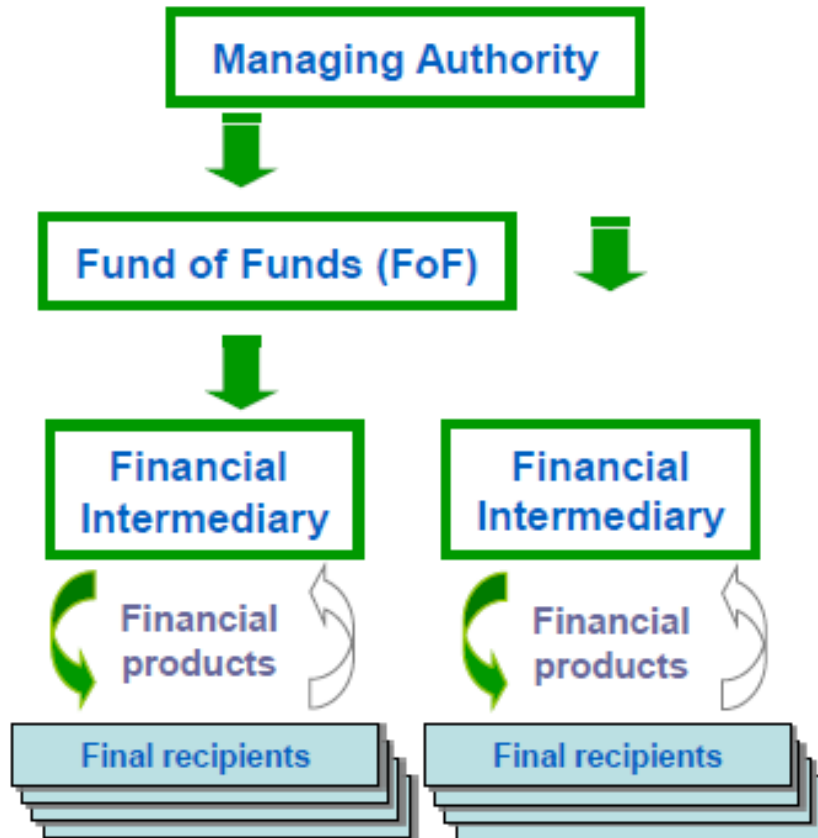
- Strategic context – must be used in the context of an integrated sustainable urban development strategy
- Viability – proposed projects must have market and financial feasibility
- Financial Market failure – should not simply replace funding that the private market would provide on similar terms
- Complementarity – may be used in parallel with grants where additional market failures exist
 - e.g. there is a mismatch between the cost of provision and the market value of the created asset

Implementing JESSICA: Experience in 2007-13

- Extent of Use - only active in 13 MS at time of last EC report
- Scale of Deployment – only €1.6bn in Urban Development and €0.4bn in Energy Efficiency vs. €10.5bn in business type FIs
- Slow to Develop:
 - requires time to design and gain approval for the FI
 - requires time for the private sector to understand the proposition and to come to terms with the State Aid issues
 - at end of 2012, few investments made
 - some anecdotal evidence that concern about absorption is reducing

Financial Instruments terminology for 2014-2020

Source EC DG Regio – March 2011



Operation

- Constituted by the financial contributions from OPs to a FI (incl FoFs) and the subsequent financial support provided by the FI

Beneficiary

- The body implementing the FI, having a contractual relationship with MA

Final recipient

- Legal or natural person that receives financial support from a financial instrument

Feasibility of JESSICA in Croatia (1)

- Evidence points to failures in the commercial property market across Croatia – but care is needed: existence of gaps in the market doesn't mean there is a market in the gap
 - Because a particular type of investment is not being financed, it does not necessarily follow that there is latent unmet demand for it
- Analytical study on Sustainable Urban Development has highlighted urban investment aspirations, some very substantial in scale, that could be suitable for JESSICA funding
 - but are they market feasible?

Feasibility of JESSICA in Croatia (2)

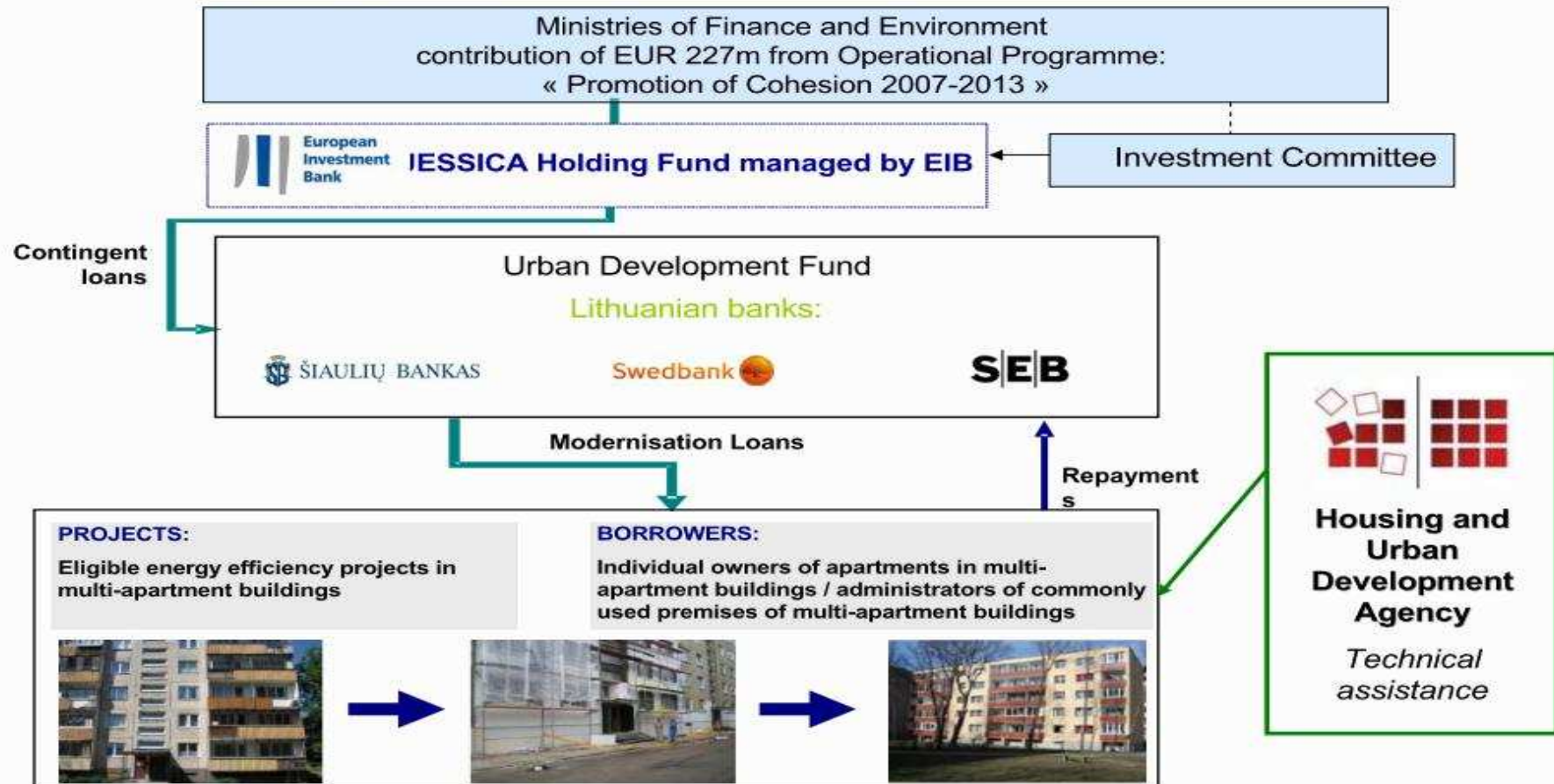
- The banking sector in Croatia is interested in ESI Funds related opportunities
 - HBOR appears best placed to manage a holding fund
 - A single national fund looks more suitable than separate funds for different urban areas
- There are presently no operations comparable to JESSICA Urban Development funds in Croatia
 - However, we feel that the necessary skills could be assembled

Financial Instruments for Energy Efficiency and Renewable Energy

- The Analytical Study on Sustainable Urban Development found that there is considerable latent demand for investment in energy efficiency and renewable energy
- Experience in other MS suggests that FIs only used in the public building stock where gaps remain in a mature ESCO market
- Experience in Lithuania and Estonia in 2007-2013 demonstrates potential for a “no-Aid” loan scheme where owners in multi-apartment residential buildings need incentives

Energy Efficiency in residential buildings

JESSICA in Lithuania





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Recommendations

RECOMMENDATIONS 1

Cautious but positive approach to JESSICA-type Financial Instrument

- Raise awareness among large cities and medium sized towns in preparing Integrated Sustainable Urban Development Strategies (ISUDS) in 2014
- Review the proposals of the cities and towns articulated in the ISUDS and their potential suitability for JESSICA-type funding (2015)
- Subject to adequate potential being identified, launch a formal ex-ante assessment of JESSICA potential with a view to preparation of an FI scheme proceeding in parallel (2016)
- Consider the latest information on outturn absorption and from evaluation of JESSICA in 2007-2013 commitment period in other Member States (2016-17)
- If the findings from the formal ex-ante assessment are positive, submit a scheme for notification in 2017
- Investments likely to commence around 2019 with a 4-5 year window to award (i.e. 'spend') the allocated funding

RECOMMENDATIONS 2

Investment in Energy Efficiency

- **Public Buildings**

- In the first instance, pursue further development of the ESCO market - possibly with direct IFI involvement - as an alternative to EU-supported Financial Instruments

- **Residential Buildings**

- Consider potential of EC “off the shelf” Financial Instrument once available for energy efficiency investments – particularly in multi-apartment blocks
- Any subsequent formal ex-ante assessment in this area should take care to gauge potential ‘appetite’ of relevant Croatian citizens for investment in energy efficiency