

JESSICA Evaluation Study for Cyprus Final Report

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Executive Summary

Indicative Need for JESSICA in Cyprus

JESSICA is a strategically important delivery mechanism for Priority 5 “*Development of Sustainable Communities*” of the **National Strategic Reference Framework for Cohesion Policy 2007-2013 (NSRF)** addressing the goals set under both national Operational Programmes “*Sustainable Development and Competitiveness*” and “*Employment, Human Capital, and Social Cohesion*”. In particular, Objective 3 of the former Programme is defined as “*The creation of sustainable communities in urban and rural areas*”. JESSICA provides a resource for Urban Development Funds (UDFs) to ensure regeneration activity is delivered in the most sustainable way helping Cyprus move towards the attainment of set objectives.

Cyprus can benefit from JESSICA support in addressing various issues faced today such as regeneration of deprived areas and enhancement of public infrastructure. There are imperfect market conditions that make such intervention projects prohibitively risky investments for the private sector. Risks include uncertain demand, new or emerging technology, long timescales for return and a broad area of impact.

Appropriate Activities for JESSICA in Cyprus

Key requirements of potential investment opportunities have been identified and a long list of 15 exemplar projects evaluated against these to determine their suitability for JESSICA funding. From these, five investment opportunities were developed as high-level case studies purely as an indication of availability of possible JESSICA type projects without any prejudice to the rest of the initial sample or any other projects. Three of the case studies address urban regeneration issues, while the other two address the important issues of transport on a nationwide basis and water savings through a network distribution upgrade.

Parties associated directly with urban development and infrastructure enhancement agendas have expressed a keen interest to embrace JESSICA. However, more information is needed before a full appraisal can be completed on a number of the identified projects being considered for JESSICA funding. It is expected that more projects will emerge and be ready for JESSICA in the next couple of years. However, a determining factor is the commitment on the part of the Managing Authority to adopt JESSICA. A step in this direction would act as a catalyst encouraging project ideas to be developed into well defined project proposals seeking finance for their implementation. JESSICA's early focus should be towards the provision of support to public sector organisations for the refinement of project ideas.

Approach to Deploying JESSICA

JESSICA should not be used as a substitute for the grant funding of projects that do not generate returns. JESSICA type investments are made in support of projects that, due to demand / technical risks or a long timescale of returns, are incapable of being supported by conventional commercial financing.

As a starting point towards the deployment of JESSICA, funds can be placed into a Holding Fund that focuses on funding essential project development work in order to develop, appraise and then deploy funds into one or more UDF(s) that will facilitate project delivery. In this regard, the Managing Authority can employ the services of the EIB (or other similar nominee organisation) as HF Fund Manager and to provide the required knowhow and dissemination of best practice towards the accomplishment of the next steps forward.

The use of a Holding Fund is optional. As an alternative course of action, the Managing Authority may decide to proceed directly to the setting up of a UDF. In this case, the Managing Authority should either have the confidence that market conditions for this type of investment vehicle are well developed or whether such investment delivery vehicles already exist. The direct setting up of a UDF will have the same desired output; it will result in the implementation of JESSICA projects and the deployment of funds. Moreover, the UDF may provide the required assistance to market players directly, helping with the development of project ideas and getting projects underway. However, in those markets where UDFs are relatively novel, there are significant advantages in the deployment of a Holding Fund.

Irrespective of the decision of whether or not to adopt a Holding Fund and in view of the country's small size coupled with likely limitations on the initial ERDF allocation to the JESSICA initiative, the study proposes, at an initial phase, the adoption of a single UDF investment approach to be deployed in phases. An immediate decision as to the level of ERDF funds to be deployed via JESSICA, together with the respective national funds' matching will have to be taken at the very early stages of the process.

A crucial issue to the success of JESSICA is the level of initial investment at the very beginning of the Structure's set up. The level of investment deposited at the beginning of the UDF's establishment is a critical factor that will reflect on the response on the part of private investors that may be interested to participate in the resulting UDF(s). The Managing Authority is called to take a decisive action that will encourage private investment and therefore achieve a substantial level of leverage enabling the delivery of many more projects than would otherwise have been delivered given the purchasing power of the money invested in the first place.

Study Findings

Suitable projects that meet the objectives of national and EU economic development policy do exist; however, additional work is required to develop these into credible investment opportunities. Projects that do not display strong commercial returns suggest there is a crucial role to be played by JESSICA as it will provide the necessary risk mitigation through public sector involvement providing a stimulus for private sector investment.

The current legal framework and UDF structure are two factors which will require further work than has been allowed for in the agreed Terms of Reference to this study. Indeed, a supplementary legal analysis is already underway. Needless to say both are factors of critical importance and will need to be addressed in further detail in order to iron out in advance issues that may arise during JESSICA implementation.

The structure proposed in this document sets out to address market failure and other imperfections related with investing in urban and infrastructure development projects and projects that display a long lead time in generating returns.

Contents

1	Introduction.....	8
1.1	JESSICA Background.....	8
1.2	Business Case for JESSICA.....	8
1.3	JESSICA in Cyprus.....	9
1.4	Project Terms of Reference.....	10
1.5	Study Objectives.....	10
1.6	Report Structure	11
2	The Strategic Context in Cyprus.....	12
2.1	National Strategic Reference Framework	12
2.1.1	Sustainable Development and Competitiveness Operational Programme	12
2.1.2	Employment, Human Capital and Social Cohesion	13
2.2	Financial Framework of Operational Programmes	14
2.2.1	Sustainable Development and Competitiveness.....	14
2.2.2	Employment, Human Capital, and Social Cohesion	15
2.3	Potential Pool of JESSICA Funds.....	15
3	Urban Regeneration and Infrastructure Enhancement Agenda.....	17
3.1	Introduction.....	17
3.2	Local Plans and Local Operations Plans	17
3.2.1	Local Plans	17
3.2.2	Local Operational Programmes	19
3.3	Project Identification and Formulation.....	22
3.4	Regeneration Agenda - Project Categories and Links with Integrated Planning	23
3.4.1	Transport	23
3.4.2	Regeneration & Revitalisation.....	24
3.4.3	Community & Recreation Facilities	24
3.5	Infrastructure Enhancement Agenda - Project Categories and Links with Integrated Planning.....	25
3.5.1	Water Supply	25
3.5.2	Infrastructure and Public Utilities	25
3.5.3	Renewable Energy.....	26
4	Towards An Investment Approach.....	27
4.1	General Rationale for Use of JESSICA	27
4.2	Summary Analysis of JESSICA and Grants	28

4.3	Economic Arguments Made for JESSICA.....	30
5	Summary of JESSICA Deployment Approaches	33
5.1	Overview.....	33
5.2	The Generic JESSICA Structure.....	34
5.2.1	Role of the Holding Fund	35
5.2.1.1	Impacts of Setting up the Holding Fund.....	36
5.2.1.2	Concluding thoughts on the Need for a Holding Fund in Cyprus.....	37
5.2.2	Role of the UDF	38
5.2.2.1	Early Options for UDFs in Cyprus	39
5.2.2.2	Operating the UDF	40
5.2.2.3	The UDF Executive Board.....	40
5.2.2.4	The UDF Fund Manager.....	41
5.2.3	Early Conclusions on the UDF Requirements for a JESSICA Structure in Cyprus.....	42
6	Proposed Structure for Cyprus	43
6.1	Introduction.....	43
6.2	Summary of Study Findings.....	43
6.3	Single UDF JESSICA Structure - "Cyprus Cities and Infrastructure Fund"	44
6.4	Other Possible Structures and Future Structure Evolution	45
6.5	Resources.....	47
6.6	Deployment Challenges.....	47
7	Potential Investment Opportunities.....	49
7.1	Introduction.....	49
7.2	Identified Potential Projects	50
7.3	Constraints to Project Delivery Identified	52
7.4	Creation of a Greater Deal Flow	53
7.5	Case Studies – Urban Regeneration Proposals	54
7.5.1	Case Study A: Nicosia Central Core Multi-Storey Car Park.....	54
7.5.1.1	Project Background and Description	54
7.5.1.2	The Project as a Part of Local Development Plans and Operational Programmes	54
7.5.1.3	Project within the JESSICA Context.....	55
7.5.1.4	Key Project Indicators.....	56
7.5.2	Case Study B: Refurbishment of Pallas Square in Larnaca City Centre.....	57
7.5.2.1	Project Background and Description	57

7.5.2.2	The Project as a Part of Local Development Plans and Operational Programmes	58
7.5.2.3	Project within the JESSICA Context	59
7.5.2.4	Key Project Indicators.....	59
7.5.3	Case Study C: Student Dormitories	60
7.5.3.1	Project Background and Description	60
7.5.3.2	Project within the JESSICA Context	60
7.6	Case Studies – Infrastructure Enhancement Proposals	62
7.6.1	Case Study D: Bus Acquisition, Maintenance and Services	62
7.6.1.1	Project Background and Description	62
7.6.1.2	The Project as a Part of Local Development Plans and Operational Programmes	62
7.6.1.3	Project within the JESSICA Context	63
7.6.1.4	Key Project Indicators.....	63
7.6.2	Case Study E: Water Works in the Nicosia Distribution Network.....	67
7.6.2.1	Project Background and Description	67
7.6.2.2	The Project as a Part of Local Development Plans and Operational Programmes	69
7.6.2.3	Project within the JESSICA Context	69
7.6.2.4	Key Project Indicators.....	70
7.7	Concluding Remarks	72
8	Findings and Recommendations	74
8.1	Investment Activity	74
8.2	Taking the Concept Forward	75
8.2.1	With Holding Fund	76
8.2.2	Without Holding Fund	76

1 Introduction

1.1 JESSICA Background

Joint European Support for Sustainable Investment in City Areas (JESSICA) is a policy initiative of the European Commission (EC), supported by the European Investment Bank (EIB), designed to help the authorities in the Member States of the European Union (EU) to implement financial engineering mechanisms to support investment in sustainable urban development in the context of cohesion policy. It has been launched with the view to leveraging additional resources for public-private partnerships (PPPs) for urban renewal and development projects in the regions of the EU.

The initiative's aim is to promote sustainable investment, growth and jobs in Europe's urban areas and is designed to support the creation of Urban Development Funds (UDFs) which will select and support urban projects, providing them with loans, equity or guarantees. This will enable the Managing Authorities of Structural Funds to have greater access to funding for the purpose of promoting urban development. Project promoters could be public, municipal or private sector enterprises. Furthermore, it will be possible for commercial banks or other institutional investors to also participate.

The financial mechanism will reinforce long-term sustainability through the recyclable and recoverable nature of the funds. Money generated through UDFs can be reinvested to support other urban development projects. JESSICA has been the subject of a number of past studies by the EIB for a number of Member States and it is emerging into a clear mechanism under EIB / EU guidance.

1.2 Business Case for JESSICA

JESSICA is a major opportunity for enhancing the delivery urban regeneration funds via the EU Structural Fund programme and deployment of the instrument has a number of advantages including;

- Provision of additional resources and incentives for PPPs in urban areas;
- Availability of greater financial expertise from specialist institutions such as the EIB;
- Ensuring longer term sustainable impact for the European Regional Development Fund (ERDF) and other EU interventions.

Different models of applying JESSICA are in place which could be geographically or thematically focused. Therefore, there is no generic "JESSICA Structure" model which should be directly replicated. On the

contrary, bespoke solutions will be needed for each Member State deciding to implement the mechanism. Each Member State will have to design an approach within the scope of its economic development policies that the EU can support. The prevailing JESSICA guidance is to develop proposals that are Specific, Measurable, Achievable, Relevant and Time-bound (SMART). At the same time, proposals should be focused on finance, delivery, integration, flexibility and economic parameters. These emerging JESSICA structures will focus on supporting UDFs which are envisaged to be the primary route for the investment of JESSICA funds into the economic development projects.

1.3 JESSICA in Cyprus

Following discussions between the Planning Bureau (the Managing Authority) of the Government of the Republic of Cyprus and the EIB, the Managing Authority has expressed an interest in deploying the JESSICA instrument in pursuit of Cyprus' urban agenda as this is set out in the country's NSRF. The commissioned study seeks out to establish the instrument's potential for Cyprus and at the same time examine the ways through which it can be implemented effectively. The study seeks to evaluate an appropriate "JESSICA Structure" for Cyprus that focuses on financing urban regeneration and infrastructure enhancement projects either through a single UDF or a series of UDFs, both with and without a Holding Fund.

The Structure will be the first of its type in Cyprus and therefore, issues may arise in terms of its establishment. The most prominent point that should be raised is the legal framework covering the operation of the UDF(s) that will be established under this structure. A UDF should operate as an independent legal entity, which does not refer to or is answerable to any Ministry or Department of the Government. It should be set up and operate as an autonomous public institution vested with a legal framework which gives it substantial flexibility so as to be able to operate quickly and effectively in order to comply with the standards set by the EU.

The JESSICA Structure, should it be adopted, will be applied to deliver the strategic intent of the NSRF and focus on a series of projects supporting the two Operational Programmes set out for NSRF realisation. This will provide investment to improve the level of sustainability in regeneration projects by allowing them to fully address national requirements such as transport, regeneration and revitalisation, enhancement of community and recreation facilities, water supply, infrastructure and public utilities, renewable energy or any other requirements that may arise. Furthermore, such activities will support employment as more jobs are likely to be generated through such investments.

Building on a market driven approach that is essential for the success and long term sustainability of the proposed UDF(s), the funds utilised by the JESSICA Structure are expected to leverage substantial amounts of investment into areas in need of social cohesion and to speed up their transformation.

1.4 Project Terms of Reference

The purpose of this study is to examine the applicability of JESSICA in Cyprus, establish if any potential projects exist that could be funded by the instrument through the above mandates, review the nature of the required investment and how a JESSICA backed UDF could be deployed against this landscape.

The objectives of the evaluation study are as follows:

- To establish the rationale for, and financial feasibility of, using JESSICA to accelerate investment in urban areas;
- To identify the key market participants and their specific investment requirements, from both the public and private sectors, in urban renewal/regeneration, as well as existing investment delivery vehicles;
- To identify and evaluate specific projects or programmes consistent with Operational Programmes and the overall strategic objectives that could be supported by JESSICA;
- To propose adapted structures for the implementation of the JESSICA initiative which reflect the spatial priorities identified in the country's NSRF and Operational Programmes, taking into account any constraints, and at the same time, minimise management and application bureaucracy costs; and,
- To suggest intervention possibilities for the ERDF and the EIB that respond to the preferred JESSICA implementation strategy, address prevailing problems, reduce the identified constraints and add value by increasing the level of regeneration activity sustainability.

1.5 Study Objectives

In summary, the objectives of the current study are to:

- Review of the landscape in which JESSICA will be operating;
- Identify the need for technical assistance that will help in the further development of urban regeneration planning;
- Provide an analysis of the nature and operations of UDFs for Cyprus and the an evaluation of the need for technical assistance in the setting up of UDFs;
- Illustrate UDF applicability through case studies; and,

- Assess project readiness for JESSICA type funding.

1.6 Report Structure

In addressing the study objectives and the overall needs for deploying JESSICA in Cyprus, the report is structured in the following sections:

- Strategic Context in Cyprus: provides an overview of the National Strategic Reference Framework 2007 – 2013 and the Operational Programmes aiding in the attainment of the established objectives.
- Urban Regeneration and Infrastructure Enhancement Agenda: sets the landscape for the strategic regeneration landscape in which a potential JESSICA backed UDF would operate.
- Pros and Cons as Opposed to Grants: examines the way JESSICA operates as opposed to the traditional way of deploying ERDF funds through grants.
- Summary of JESSICA Deployment Approaches: illustrates the way the instrument can be deployed elaborating on the role of each party involved.
- Proposed Structure for Cyprus: proposes the way towards deploying a JESSICA structure in Cyprus
- Potential Investment Opportunities: outlines potential projects that can benefit from the adoption of JESSICA and provides examples through simulations.
- Findings and Recommendations: illustrates key points of the study and proposed courses of action.

2 The Strategic Context in Cyprus

2.1 National Strategic Reference Framework

According to the **National Strategic Reference Framework (NSRF) for Cohesion Policy 2007-2013** programming document, the EU funds will be invested in thematic priorities as follows:

Priority 1: Strengthening the productive base of the economy and supporting enterprises

Priority 2: Knowledge society and promotion of RTD and innovations

Priority 3: Human resources, employment, and social cohesion

Priority 4: Environment, transport, and energy infrastructures

Priority 5: Development of sustainable communities

Priorities 6 & 7: ERDF and Cohesion Fund Technical Support

The objectives of the NSRF are realised through two NSRF Operational Programmes:

1. “Sustainable Development and Competitiveness”, which receives its funding from the European Regional Development Fund (ERDF) and the Cohesion Fund (CF).
2. “Employment, Human Capital, and Social Cohesion” which receives its funding from the European Social Fund (ESF).

2.1.1 Sustainable Development and Competitiveness Operational Programme

The strategic objective of the first Operational Programme is “The improvement of the competitiveness of the Economy within Conditions of Sustainable development”.

The Operational Programme “Sustainable Development and Competitiveness” sets out seven Priority axes as shown below:

Priority Axis 1: Basic Infrastructure in the Environment and Energy Sectors

Priority Axis 2: Basic Transport Infrastructure

Priority Axis 3: Knowledge Society and Innovation

Priority Axis 4: Productive Environment

Priority Axis 5: Revitalisation of Urban and Rural areas

Priority Axis 6 & 7: ERDF and Cohesion Fund Technical Support

Among the seven Priority Axes outlined above, Priority Axis 5 best fits with the application of JESSICA to urban renewal. However, promising projects that fall under other priorities can be financed through a JESSICA type of UDF. Moreover, JESSICA can be used for the financing of projects related to environment, transport and, in particular, energy efficiency that fall under Priority 4 of the NSFR. In addition, projects related to Priority Axis 3 “Knowledge Society and Innovation” funded by ERDF monies are also directly eligible for JESSICA funding.

It should be noted that EU Community contributions directed to Priority Axes 1 and 2 are obtained from the Cohesion Fund (CF). Under current Commission regulations CF monies are not eligible for JESSICA, only Structural Funds, i.e. ERDF or ESF, are eligible.

2.1.2 Employment, Human Capital and Social Cohesion

The Strategic Objective of the Programme is “Full and quality employment, development of human capital and the strengthening of social cohesion and equal opportunities conditions”. The Strategic Objective of the Programme aims at developing human capital and facing the structural weaknesses of the labour market, focusing on upgrading the skills of certain population groups and promoting them in employment.

The operational programme “Employment, Human Capital, and Social Cohesion” sets out three Priority Axes as follows:

- Priority 1: Development of Human Capital and Adaptability
- Priority 2: Expansion of Labour Market and Social Cohesion
- Priority 3: Technical assistance for implementation

The EU Community contribution directed to both Priority Axes is from the ESF and therefore, eligible for JESSICA. The two Operational Programmes contain a number of priorities the objectives of which are in alignment with the JESSICA concept. Consequently, any type of project envisaged under Priority Axes 1 to 5 of the “Sustainable Development and Competitiveness” Operational Programme and Priority Axes 1 and 2 of the “Employment, Human Capital, and Social Cohesion” Operational Programme could potentially be considered as candidates for implementation under JESSICA provided that the JESSICA general characteristics are satisfied.

2.2 Financial Framework of Operational Programmes

2.2.1 Sustainable Development and Competitiveness

	Community Contribution Source	Community Contribution €	National Contribution* €	Total Contribution €	Percentage of Total Community Contribution %
Priority Axis Basic Infrastructure in the Environment and Energy Sectors	CF	156,095,000	27,546,176	183,641,176	32%
Priority Axis Basic Transport Infrastructure	CF	51,109,484	9,019,321	60,128,805	10%
Priority Axis Knowledge Society and Innovation	ERDF	92,220,000	16,274,118	108,494,118	19%
Priority Axis Productive Environment	ERDF	47,600,000	8,400,000	56,000,000	9%
Priority Axis Revitalisation of Urban and Rural Areas	ERDF	127,141,354	22,436,710	149,578,064	26%
Priority Axes ERDF and Cohesion Fund Technical Support	ERDF / CF	18,500,000	3,264,705	21,764,705	4%
Total		492,665,838	86,941,030	579,606,868	100%

* Indicative figures

2.2.2 Employment, Human Capital, and Social Cohesion

	Community Contribution Source	Community Contribution €	National Contribution * €	Total Contribution €	Percentage of Total Community Contribution %
Priority Axis					
Development of Human Capital and Adaptability	ESF	81,443,025	14,372,299	95,815,324	68%
Priority Axis					
Expansion of Labour Market and Social Cohesion	ESF	34,928,419	14,970,394	49,898,813	29%
Priority Axis					
Technical Assistance of Implementation	ESF	3,397,710	599,596	3,997,306	3%
Total		119,769,154	29,942,289	149,711,443	100%

* Indicative figures

2.3 Potential Pool of JESSICA Funds

Under current EU regulations, a Managing Authority in any Member State is allowed to redistribute, into a JESSICA UDF, funds that have been previously distributed to grant funded urban projects as part of that country's Structural Fund programme. These funds usually fall within Managing Authorities European Regional Development Fund (ERDF) and the European Social Fund (ESF) allocations. Under current regulations, Cohesion Fund (CF) monies are not eligible for investment in JESSICA. At this point, it should be noted that the source of JESSICA funds does not pose a limitation as to the nature or type of projects that will eventually receive funding from the formulated UDF(s). In other words, the identity, or source of origin, of funds is lost once invested in JESSICA. Money used for the financing of projects will not necessarily correspond to projects that fall under the thematic area of the Priority Axis from which funds were withdrawn and directed into JESSICA.

Under these conditions, the Cyprus Managing Authority, the Planning Bureau has the potential to allocate to JESSICA any amount it considers appropriate out of a total pool of nearly €460 million, including National contribution but excluding Technical Support aid. The decision as to what this amount should be lies with the discretion of the Planning Bureau. Two key considerations that should influence this decision however, should be (a) the level of potential JESSICA type investment in the country and (b) the level of initial investment likely to be considered as a “positive signal” to private investors. The latter factor is likely to be crucial in the ability of the formulated JESSICA fund to attract private investment and hence achieve a high level of leverage, a goal the instrument is heavily relied on for the successful delivery of regeneration projects. A substantial initial investment will send a clear indication that the Managing Authority is taking a decisive strategic decision committing to the success of the instrument.

3 Urban Regeneration and Infrastructure Enhancement Agenda

3.1 Introduction

The purpose of this chapter is to evaluate the research findings from the first stages of the Project, concerning the urban regeneration strategy and objectives and the infrastructure needs and programmes within urban areas in Cyprus, and to formulate the urban regeneration and infrastructure enhancement agenda of Cyprus. The proposed Cyprus Urban Agenda has been formulated through the analysis and evaluation of the following:

- the provisions of the Local Plans of the four major urban areas;
- the contents and findings of the four local operational programmes which were prepared for the four major urban areas for the purposes of the Operational Programme “Sustainable Development and Competitiveness for the period 2007-2013”; and,
- the findings and conclusions of the several meetings and interviews of the JESSICA Study Team with the interested Local and Public Authorities.

The proposed Cyprus Urban Regeneration and Infrastructure Agenda, has been “translated” into a series of projects and actions. The main finding of this exercise is the link identified between the needs of the urban areas of Cyprus, the goals and strategies of EU structural funding and JESSICA investment criteria. This chapter summarises the identified actions and projects needed for enhancing the urban areas of Cyprus which also fit the JESSICA funding criteria. The link between the identified projects and the integrated planning policies which are expressed in the Local and Operational Plans of Cyprus, is also outlined in this chapter. More concerning each of the identified projects and actions, can be found in the submitted Interim Meeting presentation.

3.2 Local Plans and Local Operations Plans

3.2.1 Local Plans

Urban development in Cyprus is programmed and controlled through the implementation of the Local Plans of the major urban areas. The main urban areas under investigation in this project are Nicosia, Limassol, Larnaca and Paphos. Local Plans are Development Plans prepared through the provisions of the Cyprus Town and Country Planning Law and contain planning policies guiding development for major

urban land uses and activities such as housing, transport, commercial, and education activities. Local Plans also identify the main infrastructure and community facility needs of urban areas and contain maps indicating land-uses and development densities. Local Plans are reviewed every five years. Currently, (January 2009), a new Local Plan review process has started for the four main urban areas of Cyprus which are examined in this project. The new revised Local Plans are expected to be published in 2010. During the Local Plans Revision Process, the Minister of Interior published Reports for the four main urban areas in October 2008, identifying the main problems in these localities. These identified problems, which form the basis of the planning guidelines for the new Local Plan Revisions and also served as guidelines for identifying JESSICA project candidates, are as follows:

- Land speculation within development boundaries causing the freezing of land, mature for development. This causes pressures for the expansion of development zones creating **urban sprawl and scattered development**;
- Traffic problems (traffic congestion, delays etc) and almost total absence of public transport systems. Traffic problems and the implementation of an efficient public transport system are getting more difficult to tackle due to the phenomenon of urban sprawl;
- Parking problems mainly in central areas and along commercial activity corridors;
- Degradation of the built environment of city centres and other historical areas (conservation urban cores) mainly due to the concentration of disadvantaged social groups and ethnic minorities. This has caused the decrease of population living in these areas. Urban sprawl has also had a very negative effect on the socio-economic vitality of urban centres and a vicious circle has been created;
- Degradation of the old Turkish Cypriot quarters in most of the urban areas;
- Lack of cultural and community facilities and amenities (museums, theatres, music halls, youth centres, centres for the elderly, athletic centres, etc);
- Lack of urban parks, green areas and public spaces. The percentage of open green space especially in the area of Nicosia Municipality is very low compared to similar European urban areas;
- Lack of public infrastructure in tourist areas (cycle and pedestrian routes, parks, etc);
- Delays in the implementation of urban infrastructure, and road networks which worsen the phenomenon of urban sprawl and cause increases in land values;
- Degradation of the urban space and environment and creation of brownfield sites;
- Lack of basic urban utilities like sewerage systems, solid waste treatment plants etc;
- Problems with the residential solid waste collection, inefficiencies in applying solid waste recycling programmes and problems with cleaning of public spaces and roads;

- Aging of the existing drinking water infrastructure (underground pipes), resulting in unnecessary losses of valuable drinking water;
- Mixing of incompatible land uses; and,
- Lack of flexible planning policies to promote and accommodate large contemporary types of office and commercial development.

3.2.2 Local Operational Programmes

Although the Local Plans of the four major urban areas in Cyprus contain an integrated planning approach, they do not clearly identify or give any priority to sustainable development, environmental, social and cultural operational programmes and projects which are necessary for the enhancement of the urban areas and which could also meet the funding criteria of the EU Operational Programme “Sustainable Development and Competitiveness 2007-2013”. In order to fill this gap and prepare projects which would be coherent with the above mentioned Operational Programme, the Department of Town Planning and Housing and the Planning Bureau, prepared the Local Operational Plans for the four major urban areas of Cyprus. These Plans contain proposals for specific and targeted action programmes and projects which are based on the general policies of the Local Plans and comply with the main goals of the EU Operational Programme “Sustainable Development and Competitiveness 2007-2013”, and with Priority Axis number 5 of this Operational Programme that refers to the revitalisation of urban and rural areas.

The four Local Operational Programmes analysed the existing demographic, socio-economic, planning and physical environment of each urban area, evaluated the views and development programmes and budgets of each Local Authority within each Local Plan Area, and proposed 28 Projects for the four main urban areas. Eighteen of these projects are within the central traditional core areas of the cities and the remaining ten are located outside the central area cores but are related to the revitalisation and regeneration of the central areas of cities. All the schemes contain the usual elements of regeneration projects such as creation of green and pedestrian areas, traffic management schemes, improvement of infrastructure and upgrading of cultural facilities.

The main projects proposed by the four Local Operational Programmes of Nicosia, Limassol, Larnaca and Paphos are shown in the table below.

Local Operational Programmes Projects	
Nicosia	
1	Improvement of Eleftherias Square

Local Operational Programmes Projects	
2	Regeneration of the Taktakala area in the old Nicosia city
3	Regeneration /Improvement of the Pallouriotissa old core
4	Regeneration /Improvement of the Kaimakli old core
5	Regeneration of Solomos Square
6	Regeneration of "OXI" Square
7	Improvement of part of Paphos gate square
8	Improvement schemes in the areas of Ledras/Liperti streets
9	Improvement of part of Makarios Avenue
10	Cyprus Cultural Centre
11	Improvement of the Pedieos River
12	Regeneration of the Strovolos old core
Limassol	
1	Regeneration of the old Limassol core (TEPAK university area)
2	North extension of the old Limassol core
3	East extension of the old Limassol core
4	Improvement schemes in Limassol coast reclamation area
5	Maintenance of the "Pattihion" theatre
6	Linear River Park of the river "Vahtkia"
7	Linear River Park of the river "Garrylis"
Larnaca	
1	Regeneration of the Squares of Ay. Lazaros, Castle and Ermou Areas
2	Schemes to prevent erosion on the coastal pedestrian road of "Piale Pashia"
3	Improvement of Ayios Ioannis area (outside the central area)

Local Operational Programmes Projects	
4	Master Plan of the Oil Refinery
Paphos	
1	Regeneration of the traditional centre and Kennedy Avenue
2	Regeneration of the 28 of October and Costi Palama Squares
3	Improvement of Griva Digeni Avenue
4	Creation of a multi centre for old people and children
5	Regeneration of coastal area

Table 3.2.1: Local Operational Plan Projects

The above Local Operational Scheme Projects are now being promoted for EU funding through the Operational Programme of Sustainable Development and Competitiveness. The proposed projects are mostly square/piazza regeneration and “place making” projects but do not contain any basic infrastructure projects.

The table below summarises the total investment requirement associated with the projects that have been included in the Local Operational Programmes and that are eligible for ERDF grant funding during the current programming period, 2007 – 2013.

Urban Area		Capital Expenditure (€mil)							
	Year	2007	2008	2009	2010	2011	2012	2013	Total
Nicosia				8.70	15.50	22.30	13.50	4.00	64.00
Limassol			1.50	14.70	11.30	10.00	6.80	0.70	45.00
Larnaca			2.00	2.70	1.70	2.90	2.00	0.70	12.00
Paphos		0.50	5.20	3.00	3.80	4.50	2.50		19.50
Total		0.5	8.7	29.1	32.3	39.7	24.8	5.4	140.5

Table 3.2.2: Capital Expenditure for Local Operational Plan Projects

In the case of grants, expenditure is reimbursed on the basis of expenses included on the statement of expenditure and assuming that projects included in the current programming period are completed by 2015, in accordance to the n+2 rule. Out of the € 149.6 million of ERDF funds and National contribution

allocated to the Priority Axis for “Revitalisation of Urban and Rural Areas” the majority has been allocated to urban area regeneration projects, this amount being €108.7 million. A comparison though between the requirements set out under the Local Operational Plans and the allocated ERDF monies, reveals a deficit in the amount of €31.8 million.

This deficit raises an important issue in relation to Cyprus’ requirements in urban areas. A simple grants scheme may be insufficient to cover long-term needs. Instead, a more market focused approach utilising revolving funds is an option worth considering. The successful adoption and operation of a fund with a revolving nature concentrated on addressing the urban regeneration agenda may be the long term solution to covering excess demand. A decision may have to be taken at this point to proceed with less grants despite the fact demand exceeds the supply of available funds and ‘invest’ in the long term attainment of the goals set through the urban regeneration agenda.

3.3 Project Identification and Formulation

The analysis of the Cyprus urban planning environment as outlined above and the interviews carried out with Local and Public Authorities and Bodies which were undertaken in the first stages of the Project, led to the formulation of the Urban Regeneration Agenda and the Infrastructure Enhancement Agenda of the urban areas of Cyprus. These two Agendas were then “translated” in urban development and infrastructure projects which are linked with the Local and Operational Plans, and which could form the basis for the implementation of the JESSICA initiative in Cyprus.

The following types of projects were initially identified:

- Improvement of Public Transport Systems
- Car Parking
- Traffic Management Schemes-Integrated Transport
- Revitalisation of degraded urban areas (city centres, old Turkish quarters, conservation areas etc)
- Conservation areas and buildings
- Tourism
- Creation of public urban spaces and parks and Athletic Centres
- Brownfield Revitalization
- Waste Management-Street cleaning
- Infrastructure-utilities
- Research and Development Centres and Education

Following research and interviews with Local and other Public Authorities, in order to identify projects and actions which could meet the JESSICA criteria the above project types were grouped into the following thematic areas or categories:

- Transport
- Regeneration & Revitalisation
- Community & Recreation Facilities
- Water Supply
- Infrastructure and Public Utilities
- Renewable Energy

A table displaying all the projects which were initially identified as possible JESSICA candidates and which also meet the criteria of the integrated urban area planning policies of Cyprus is illustrated under Chapter 7 “Potential Investment Opportunities” of the study. These proposed projects form an additional and complementary list of projects to the projects proposed by the four Local Operational Plans (Listed in Table 3.2.1 above).

3.4 Regeneration Agenda - Project Categories and Links with Integrated Planning

The following identified project categories form the Urban Area Regeneration Agenda:

- Transport
- Regeneration & Revitalisation
- Community & Recreation Facilities

An outline of each project category and its link with Local Plans is given below.

3.4.1 Transport

Urban development sustainability requires that land use and transport planning should be part of an integrated and unified process. Unfortunately this is not always the case in many countries, Cyprus being no exception. This lack of coordination has resulted in the phenomenon of urban sprawl and the continuous satisfaction of travel demand mainly through the construction of roads leading to environmental degradation of urban space. Recently, the development sustainability principle has become one of the main aims of Cyprus urban planning and the promotion of sustainable mobility through proper planning measures is a key Government strategy reflected in the Local Plans and in other Government programmes. Sustainable mobility can only be achieved through the application of an integrated and balanced transport and planning policy containing a number of interrelated policy

measures which will only succeed if they are applied as a package. Public transport for instance will be successful if the cities are compact and urban densities are high enough and if the correct policies of car parking and car restraint are applied. The proposed transport projects form part of such integrated transport packages which will promote sustainable mobility.

3.4.2 Regeneration & Revitalisation

City centres need innovative revitalisation schemes which will improve public urban space and also enhance and attract new uses in the area (commercial, entertainment, cultural, residential etc). Such schemes could be more effective if there is cooperation between the public and the private sector (especially business people) utilising the area. Schemes could involve upgrading/creation of public squares/piazzas combined with entertainment uses (restaurants, galleries etc), creation of parks, upgrading of public buildings with traditional/heritage architecture and leasing them to the private sector to be used as cultural centres, theatres etc. The refurbishment of Pallas Square in the Larnaca city centre, which is a project proposed by the Municipality of Larnaca, satisfies these criteria for urban renewal and its implementation could act as catalysts for the revitalisation and upgrading of the wider area and may also trigger the involvement of the private sector.

3.4.3 Community & Recreation Facilities

As already mentioned, the process of the review of the Local Plans of the four major urban areas in Cyprus (Nicosia, Limassol, Larnaca and Paphos) is currently in progress. In the framework of this process, the Minister of Interior published four Reports-one for each urban area-in October 2008 setting out the principles which should be applied in the next Local Plan revisions. One of the main findings of these Reports is the lack of community facilities in the major urban areas. The Minister has recommended that the revised Local Plans should promote and facilitate the creation of community facilities such as youth hostels, old people's homes, athletic centres etc in urban areas.

Another fact of the urban space situation in Cyprus which is also highlighted in the above mentioned Reports of the Minister of the Interior is the lack of open spaces and athletic facilities for the general public. The percentage of public open spaces and parks in the urban areas of Cyprus is very low. Nicosia has only 70,000 square metres of public open space that corresponds to only 13% of what the city needs according to its population in comparison to international standards. The other three urban areas have more public open space, but still the percentage is low compared to international standards. Also, in the last 5-10 years there has been a growing demand for the creation of athletic centres in urban areas to cover the needs of the population and especially the younger age groups. A lot of Local Authorities and the private sector are interested in creating Athletic Centres to cover such needs.

The two projects proposed by the Municipality of Aglantzia which involve the creation of student dormitories and a Municipal swimming pool meet the above criteria of urban planning.

3.5 Infrastructure Enhancement Agenda - Project Categories and Links with Integrated Planning

The following identified project categories form Infrastructure Enhancement Agenda:

- Water Supply
- Infrastructure and Public Utilities.
- Renewable Energy

An outline of each project category and its link with Local Plans is given below.

3.5.1 Water Supply

One of the biggest problems that development faces in Cyprus which is an acute and common problem of the countries and areas in the Mediterranean basin is water supply. The main principle which is included in Local Plans is that the development zone boundaries should coincide with water supply boundaries. Unfortunately, during the last decade, the expansion of urban development zones superseded the capacity for a similar expansion in water supply boundaries, creating serious problems in existing development zones. This coupled with long periods of draught that Cyprus experienced during recent years, has created immense problems and shortages in the supply of potable water in existing developed and empty development zones (housing, commercial, tourist, industrial areas). The integrated planning principles require the continuous provision of water and other services and utilities that affect the quality of life to existing urban activities and development zones. It is therefore imperative that immediate measures are taken to safeguard the continuous water supply to all urban development zones. Such measures include desalination plants and the replacement of the old water supply pipelines in urban areas which cause huge water losses.

3.5.2 Infrastructure and Public Utilities

The planning and creation of Public Utility Networks, such as sewers and sewage treatment works, land drainage, water supply, electricity supply, telecommunication networks, roads and road infrastructure plays a major role in the Integrated Planning Process of City Areas. It is essential that adequate services are available in order to service new development.

The Local Plans have a general policy on public utilities where it is recommended that the design and planning of such public utility networks is carried out in an integrated manner.

It is also essential, that these utilities are planned at an early stage of the planning process so that they can allow for the expansion of existing development zones and/or the creation of new development zones.

Since the implementation of the planning legislation in Cyprus in 1990, and the consequent reviews of Local Plans, extensive development zones were included in Local Plans earlier than really needed, due to pressures from various interest groups. This has resulted in the phenomenon of the lack of infrastructure facilities in a lot of the existing development zones.

Currently the process of the review of the Local Plans of the four major urban areas in Cyprus (Nicosia, Limassol, Larnaca and Paphos) is in progress. In the framework of this process, the Minister of Interior published four Reports-one for each urban area-in October 2008 setting out the principles which should be applied in the next Local Plan revisions. The lack of basic infrastructure facilities in existing development zones was highlighted in the above reports and the consequent guideline **is that the provision of infrastructure facilities to existing development zones should be a priority over the expansion of development boundaries in order so that sustainable development is safeguarded.** In this context, the proposed infrastructure and public utilities projects will promote integrated and sustainable development in existing urban development zones.

3.5.3 Renewable Energy

Energy renewal projects in urban areas are key elements in the general effort of protecting the environment and promoting sustainable development. Urban areas due to the concentration of population are the main energy consumers in all countries. Unfortunately, Cyprus in general is lacking in the energy renewal sector. This fact is reflected in the limited response that the project team received for such projects from potentially interested parties. Despite this, the effort of promoting energy renewal projects mainly in urban areas should be continued and intensified through JESSICA and other EU initiatives and projects. Energy renewal policies and projects should be part of the integrated urban planning process.

4 Towards An Investment Approach

4.1 General Rationale for Use of JESSICA

JESSICA is a policy initiative to exploit financial engineering mechanisms that support investment in sustainable urban development in the context of cohesion policy. It has been launched with a view to leveraging additional resources for public-private partnerships (PPPs) and, in general, for urban-renewal and development projects in the regions of the European Union (EU).

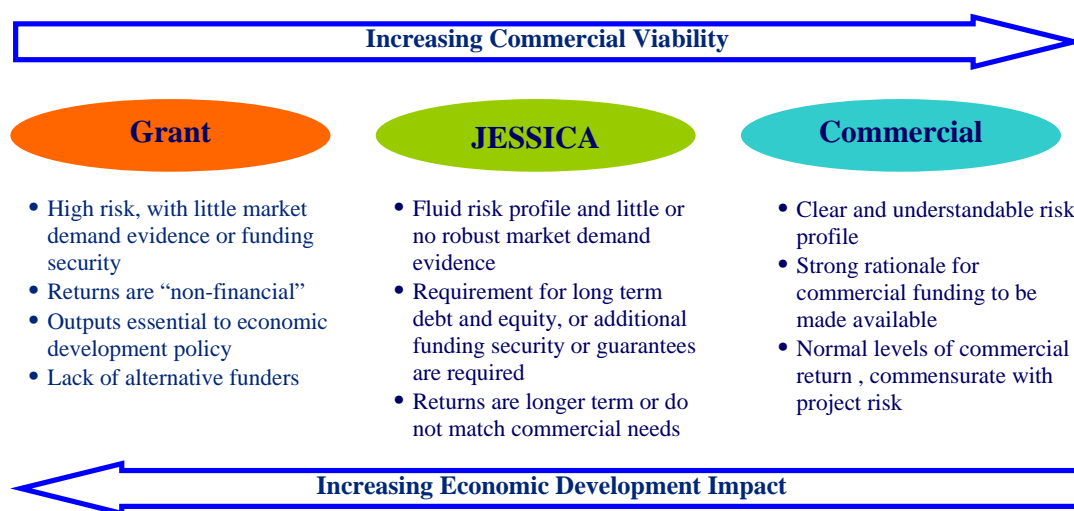
It is designed to support the creation of Urban Development Funds (UDFs) which will select and support urban projects, providing them with loans, equity or guarantees. This will enable the Managing Authorities of Structural Funds to have greater access to funding for the purpose of promoting urban development. Project promoters could be public, municipal, or private sector enterprises and it will also be possible for other private banks or investors to participate.

The overarching rationale for JESSICA in Cyprus appears to be reinforcing the long-term sustainability of the economic development agenda through the recycling of returns from early activities. Money generated through JESSICA backed UDFs can be reinvested to support other future urban development projects.

JESSICA should be targeted at projects where an “investment” approach is more beneficial than “grant giving”. By definition, economic development policy requires projects to be delivered that are not viable for commercial investors to fund on their own, so action is needed to facilitate projects for the benefits of social and economic cohesion.

To retain an overarching “spirit” in addition to its deployment, JESSICA should be applied to those projects that cannot make the “returns hurdle” set by commercial funders either because of the uncertainty or longer term nature of the returns, and provide the necessary equity, loans or guarantees to encourage other investors to fund the project.

As such, JESSICA provides an additional tool to grants for the Planning Bureau, as the diagram overleaf summarises:



4.2 Summary Analysis of JESSICA and Grants

An initial review of the “JESSICA rationale” suggests there is benefit for the adoption of JESSICA in Cyprus, which in summary is focused around:

- Creating the ability to recycle returns from one project into future regeneration activities; and,
- Providing an additional range of investment tools for the Planning Bureau, in the form of debt, equity and guarantee structures.

One further outcome of the above rationale is the ability to attract investment partners from the private sector for more than a single project or intervention, thereby beginning to consider longer term programmes of activity funded directly through a fund and leveraging long term investment commitments from the private sector.

To illustrate these issues in more detail, we now review the key financial and economic flows within the JESSICA and Grant mechanisms. The following table is designed to analyse and compare the features of both approaches and outline the main areas of commonality and difference.

JESSICA Mechanism	Grant Mechanism
Source of funds	
<ul style="list-style-type: none"> • Public through OP • Private levered funds: experience in other jurisdictions suggests up to 9 time direct leverage can be obtained) 	<ul style="list-style-type: none"> • Public through the OP • Private levered funds; at a lower level to JESSICA at around 3 times leverage • No financial structures typically employed

<ul style="list-style-type: none"> Debt and equity can be integrated into UDFs and at project level to increase the range of projects and scope of investment 	
Application to projects	
<ul style="list-style-type: none"> Must be ERDF eligible for first round of investment. However, future investment made from returns has a much broader scope of application (and do not have to be ERDF eligible) A project must demonstrate the capability to generate returns, this may mean some projects are not suitable for JESSICA and must continue to rely on Grants The application is more complex than grants and may be difficult for some project sponsors to integrate within their project programmes. 	<ul style="list-style-type: none"> Usually a single application and reliant on "claw-back" conditions within the contract to secure any returns. Project developers understand how grant can be applied and have strong past track record.
Source of Returns	
<ul style="list-style-type: none"> Project returns captured within the UDF structure and retained under the UDF's direct control Facilitates active planning of projects by the UDF and encourages the UDF to drive forward a dual regeneration and investment agenda. 	<ul style="list-style-type: none"> Typically only ever achieved through "claw-back" provisions, which experience shows are very rare. Does not encourage an investment approach to regeneration and inevitable that returns may be lost.
Administration	
<ul style="list-style-type: none"> Inherently more complex to set up, but should settle into a similar level of function to the existing grants mechanism Opportunity to outsource some of the technical and administrative process to the UDF and the Planning Bureau approve a business plan that it manages by exception Further opportunity to take stock of existing processes and address any current weaknesses in the administration system. 	<ul style="list-style-type: none"> Simple process that is led by Planning Bureau that is well understood. Existing organisational map in place

In addition to the points outlined in the table above, regulations state that in the case of grants, expenditure is reimbursed on the basis of expenses included on the statement of expenditure and assuming that projects included in the current programming period are completed by 2015 in accordance to the n+2 rule. Article 78 of Regulation 1083/2006 provides for derogation to the rule in the case of financial engineering instruments, such as JESSICA. In particular, funds directed towards a Holding Fund will be included on the statement of expenditure and are therefore considered as absorbed and utilised. Furthermore, funds deposited in the Holding Fund are not challenged by the n+2 limitation.

4.3 Economic Arguments Made for JESSICA.

Later sections of this report will explore the particular context of the Cypriot economy, political organisation and regeneration landscape to consider how the case for JESSICA could be made. However, from current experience across the EU and our own initial interpretation of the factors impacting the Planning Bureau's administration of the 2007/13 Operational Programmes, the following macro and micro economic factors have been summarised for consideration.

Macro-Economic Factors

- JESSICA represents a **good, and in some cases better, use of public money** through the sustainability of Structural Funds. Previous studies have shown that funds can be recycled and invested a number of times; in effect the same money can be used to fund more than one project. In this sense, JESSICA is not a replacement for grants, but an evolution of that mechanism to an investment based approach.
- The Regulations permit **UDF returns not to be repaid back to the EU Commission**, as could be the case with a grant, thus enabling the fund to grow and finance additional projects. These returns must be used for regeneration projects, but crucially, are not required to meet the same ERDF restrictions. An example of this would be directing investment into non ERDF eligible housing (for which Cyprus has a unique restriction as a new member state). In effect, adopting JESSICA can **make ERDF programme money more flexible** to invest in the future.
- Providing a new financing tool alongside grants will encourage the **development of a more sophisticated approach to PPP** and other financial instruments in Cyprus. An option for consideration by the Planning Bureau is the way it wishes to use external support if it wishes to develop this option. One approach could be to set up an overarching Holding Fund and utilise the skills and experience of the EIB as Holding Fund Manager, bringing its expertise from across Europe. Alternatively, Cyprus has an established and competent financial services sector that could be engaged in delivering the resources needed for a UDF structure.
- As a **new source of loan financing**, increased economic development opportunities exist within "sub-commercial" projects that have historically not been considered to be suitable for grants.
- Detailed scenario modelling which has been undertaken by Deloitte member firms in other constituencies in Europe has illustrated that **JESSICA can act effectively as a risk buffer instrument**, providing comfort to private investors through subordinated returns. Deloitte

research has included detailed financial modelling that shows how the public sector can recover its initial investment and even some level of return while maintaining a de-risking investment to go some way to protecting private investment returns.

- In the current economic downturn, anecdotal evidence from across the EU suggests that a number of development projects are becoming unviable, as land and building values fall. In this context, **JESSICA acts as an anti-cyclical instrument** by the EU, which invests in those marginal projects (as described earlier) to build confidence in the private sector to continue redevelopment activities in urban places. A JESSICA fund could be a new source of finance that facilitates project delivery until the risk appetite of traditional commercial finance returns.

Micro-Economic Factors

- JESSICA provides an opportunity to **enhance best practice for regeneration projects** in Cyprus. Project promoters can look to develop new projects that previously were not possible by structuring projects in a way that encourages private investment. As outlined above, JESSICA can act as a risk buffer for projects and through a range of debt or equity mechanisms address specific issues within a project.
- The implication of a broader project investment opportunity is the **increased opportunity for private investment**. Our analysis suggests the potential market for these projects over the programme period is substantial.
- A common first reaction in other countries has been that the reallocation of Structural Funding into the JESSICA mechanism by Managing Authorities reduces the opportunity to fund projects requiring grant. The Planning Bureau will be instrumental in the transition to a dual grant/JESSICA funded regeneration programme, encouraging project sponsors to consider JESSICA over a grant application.
- There will be **more transparency as to the characteristics of an acceptable project**. The investment strategies that must be developed by UDFs will provide more help to project promoters in the early stages of project planning. This has the added likely benefit of **reducing the number of unsuitable applications and saving appraisal time** at the Planning Bureau's end as promoters are more informed on the objectives of the UDF at an early stage.
- **Desalination and infrastructure projects** are emerging as future focus of economic development involving the major urban centres (e.g. desalination plants, much needed work on

water distribution networks). **JESSICA money is ideal** for assuming the early investment risk and longer term payback periods associated with these types of projects.

5 Summary of JESSICA Deployment Approaches

5.1 Overview

The purpose of this chapter is to set out the main principles that will underpin the development of a JESSICA structure for Cyprus. We will outline key criteria that must be in place for projects and stakeholders wishing to interact with JESSICA and provide context for different scenarios of how JESSICA could be adopted in Cyprus in later chapters of this report.

At this final stage of the study, we are able to outline some of the principles for the JESSICA structure architecture in Cyprus and draw some conclusions. Should the decision to go ahead with JESSICA is taken our conclusions can serve as a basis for further elaboration within the context of an implementation study. Based on the analysis in the preceding chapters, the following landscape for the regeneration agenda is emerging:

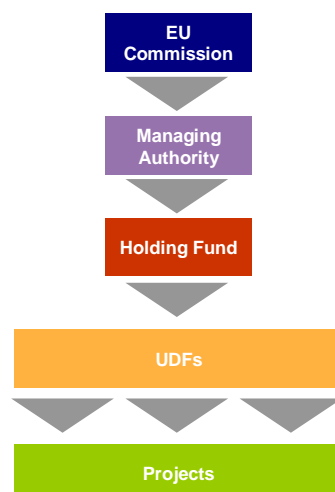
- A national policy framework is in place that provides a strategic overview for the use of EU Structural Funds. This has encouraged the development of Urban Development Plans for urban areas and the identification of projects to be funded by the Operational Programmes.
- A regional and city based infrastructure for public led regeneration exists that stimulates project development and secures public funding for delivery.
- The approach to project development is relatively sophisticated (compared with some other member states) and generates strong case studies that demonstrate ability to bring forward place-making projects that are in line with EU Commission requirements for structural funding. Cyprus appears to have no problems spending its Operational Programme allocations in the Programme period.
- Regeneration project delivery has historically been instigated by the public sector, with the private sector playing a “contractor” role in the delivery. As such the public - private relationship appears in its infancy and it is opportune to develop new mechanisms.

- Building on the above, there are no obvious PPPs in place for regeneration delivery in Cyprus at present. A review of existing delivery suggests the role of joint ventures (and similar mechanisms) are not typically utilised and therefore risk transfer and co-financing are not engrained in the public - private relationship.

The above points all influence how JESSICA could be adopted in Cyprus and provide early context for the potential structure of JESSICA, should it be adopted.

5.2 The Generic JESSICA Structure

The diagram below sets out a generic structure for JESSICA which is outlined in the Regulations and briefing reports subsequently prepared by the Commission to refine the Regulations. This is also based on past work Deloitte has undertaken, developing sector “accepted good practice” on investment routes into UDFs. It also reflects current EU and EIB guidance on the role of a Managing Authority and Holding Fund, specific to the JESSICA instrument.



The diagram illustrates the key components of a generic JESSICA Structure that could fund either a single or series of UDFs, which we discuss in more detail later in this section. The diagram includes a “Holding Fund” to illustrate that an option to set one up exists – this should not be taken as an obligation to use a Holding Fund for Cyprus – later sections of this chapter explore in more detail the options regarding the Holding Fund.

Having completed some initial review work on the nature of projects likely to be funded through the JESSICA Structure and the context of the current Operational Programmes, the following principles and

options are now considered in order to refine this generic structure into a suitable mechanism that could be adopted in Cyprus. Key principles of this structure are:

- Maximise the potential for investment from the private sector at a number of “levels” within the structure;
- Provide a dedicated fund that can manage investments in projects and drive forward the capture and reinvestment of returns; and,
- Make the process of accessing funds efficient for those projects that are not best suited to grants.

Role of the Managing Authority

The Cypriot Government, through the Planning Bureau, has the statutory responsibility for ERDF programmes in Cyprus. As such, the Planning Bureau has the overall responsibility to promote the efficient utilisation of Structural Funds and the Cohesion Fund within the general context of alignment with EU objectives for the attainment of sustainable growth and development.

As such, the Planning Bureau will make any recommendation to commit ERDF through JESSICA, based on its own interpretation of operational requirements and the wider economic development agenda in the future. The key decisions for the Planning Bureau will be focused on whether JESSICA provides any “added value” over the current grant regime and if JESSICA is to be adopted, what is the suitable architecture for its deployment (particularly around the nature and number of UDFs, and the use of a Holding Fund).

The Cypriot Government must then approve the Planning Bureau's decision on use of JESSICA, given potential financial and reputational implications for the Country.

5.2.1 Role of the Holding Fund

A Holding Fund is a “fund of funds” that receives initial ERDF cash from the Commission prior to it being placed with UDFs. So, based on prior experience across the EU, it is important to consider if there are UDFs in place already that can be direct recipients of JESSICA cash in Cyprus, and if not, what is the timescale for their formation.

A Holding Fund can take two main forms:

- An initial repository for the ERDF monies while UDFs are set up: The Holding Fund could then invest itself out of existence as UDFs come on stream, undertaking the necessary due diligence

to satisfy the Planning Bureau that ERDF money is being properly and appropriately invested. Once all monies have been deployed, the Holding Fund would disband and leave the UDFs to manage the reinvestment of recycled funds.

- A continual “fund of funds” to supervise UDFs: As above, the Holding Fund would act as the initial repository while UDFs are being established, but then remain to oversee initial investments and receive returns from UDFs. The Holding Fund would then be an active investment vehicle involved in subsequent rounds of investment.

The form that should be adopted is a matter that should be addressed during the implementation phase. A key point to be considered however is whether the UDF will have its own governance and supervisory mechanisms. If it does, then there is little rationale in maintaining the Holding Fund in the long run. If not, then the Holding Fund can assume a governance and supervisory role of the UDF.

It should be recognised that a “fund of funds” model can, assuming the proper governance and supervisory mechanisms are in place, be replicated by a UDF itself – particularly if a single country wide UDF is established with the mandate of focussing on investment in any project eligible for the Cypriot Operational Programmes. It is important though to note that the regulations prescribe that can only invest in projects and not in other funds. While drawing no conclusions at this point, the use of a single UDF at a national level could also be an option for Cyprus due to the scope of the Operational Programmes and nature of projects we have reviewed.

It is also important to consider the level of “added value” that a Holding Fund will provide over the current organisational landscape (particularly if the EIB assumes the role of Holding Fund Manager). In effect, the Manager can intervene in order to fit a potential gap that may arise in the capacity or skills of the current economic development community in Cyprus, providing additional support from a dedicated Holding Fund.

5.2.1.1 Impacts of Setting up the Holding Fund

The following section outlines the key impact of setting up the Holding Fund:

Project Focus: acting as a focal point for the development of JESSICA investment opportunities. The Fund Manager can assume the responsibility for promotion and marketing of the fund, being active in facilitating some of the early investments. The Holding Fund would require an investment Board to be established to appraise potential investments into UDFs however, it could not make investments directly into projects.

Fund Manager Role: tasked to manage the fund and act in trust for the funds. This role includes the appraisal of applications from UDFs for investment and providing general support to the Managing Authority's efforts to deploy JESSICA. The EU regulations permit the EIB (appointed directly) or a local bank (appointed through competition) to act as the Fund Manager. It is standard practice for a fund management agreement to be drawn up for this role, encompassing the work the Fund Manager will perform investing JESSICA cash into UDFs and the fees received for the service.

Interest Earned: the advanced funds will effectively sit on deposit until a UDF makes a successful application. The interest generated on these deposits can be used to pay Fund Manager fees, so as to avoid the consumption of "JESSICA capital", and fund feasibility studies and other technical work that advances a potential investment in a UDF. We understand from the Commission that in the event that not all monies are invested into UDFs and claw back of ERDF takes place, any interest earned in the Holding Fund is not repayable.

UDFs: as outlined next in this section, UDFs will still be required to be set up into which JESSICA cash can be invested. The Holding Fund can act as the primary driver for the Planning Bureau in setting up UDFs and engage the skills and expertise needed for the appraisal of UDFs. However, it should be noted that the Holding Fund cannot act as the investment delivery vehicle. This role is restricted to UDFs. It can be argued that due to restrictions in the level of funds to be allocated and the size of the country, the setting up of a Holding Fund may delay the UDF development process. The key consideration however, is the level of "added value" arising from a Holding Fund involvement to the process of establishing a UDF through the dissemination of best practises and the provision of support during this process, especially considering that such investment delivery vehicles are new for the Cyprus.

5.2.1.2 Concluding thoughts on the Need for a Holding Fund in Cyprus

The decision on whether to proceed with the adoption of a Holding Fund is not within the scope of this report. It is therefore, not appropriate to conclude on the need for the establishment of a Holding Fund as part of the JESSICA Structure to be adopted in Cyprus; however, our review within the context of the current study and on the basis of discussions with a range of stakeholders has identified the following points:

- There appears to be room for active participation to develop and refine JESSICA projects in Cyprus, a function which could be provided either by a Holding Fund Manager or a UDF. There are clear advantages of having an experienced and dedicated Fund Manager, at least during the initial stages of the deployment. Corporate, and in particular, Municipal leadership would definitely benefit from such services.

- The level of Operational Programme funding that is likely to be diverted into JESSICA, should it be adopted, is a determining factor as to the decision for setting up a Holding Fund. The benefit that can be obtained from earned interest required to cover the relevant costs of setting up the fund is directly proportional to the level of investment.
- As outlined above, the current economic climate and prevailing interest rates deliver low returns from invested monies; at present, investment returns may not be sufficient for covering the Holding Fund Manager's costs.

5.2.2 Role of the UDF

In overview, the role of a UDF is relatively simple, in that it is the intermediate entity that makes investments of JESSICA monies into eligible projects. The Regulations permit a certain amount of flexibility for a country to determine how it would like any JESSICA UDFs to be established, including the number to be set up and their geographic, spatial or investment focus.

This section of the report now reviews the headline options for UDF structures, which can broadly be based as follows:

- Spatially led – either a single country-wide UDF or city / regional vehicles that are defined by geographic boundaries and invest in a mixed range of projects within that geographical boundaries.
- Sector led – focussed on addressing certain regeneration objectives, such as infrastructure, public realm, remediation, mix use or energy efficiency within the remit of the Managing Authority.
- Investor led – structured to meet the needs of private investors by allocating similar types of project and risk profiles for funds that specialise as either debt or equity investors.

At this point of the report, no final conclusions are drawn on the most appropriate approach; indeed findings of the study reviewed in later chapters may indicate that a blend of the above options is a better option to be considered for implementation in the case of Cyprus.

The following diagram summarises the nature of the main UDF options.

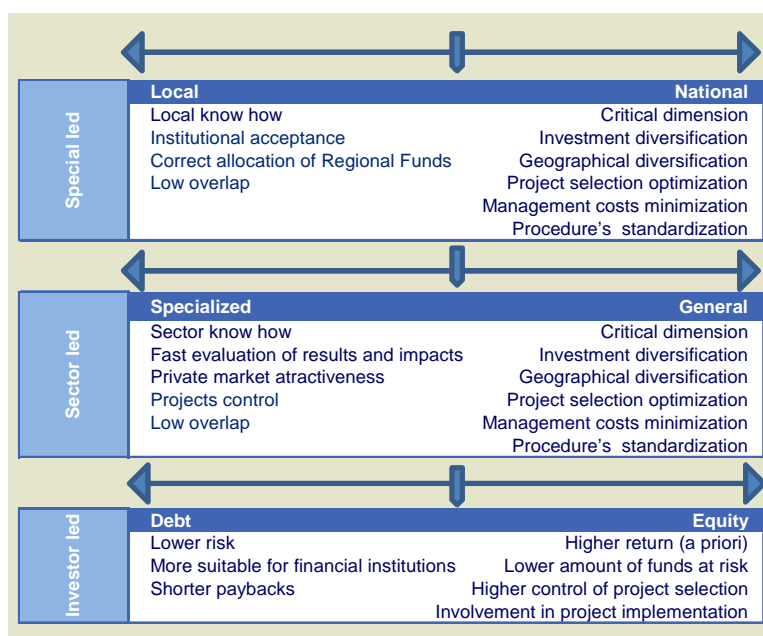


Diagram 5.2.1: Main UDF Options

5.2.2.1 Early Options for UDFs in Cyprus

Discussions with local stakeholders, plus feedback we have received from the dialogue between the Planning Bureau and the EIB, have suggested the following options for UDFs in Cyprus are worthy of further analysis:

- **A “single UDF” structure:** which acts as a Country wide investor of ERDF into a range of projects. This could set itself up as the “single UDF” for Cyprus and focus on investment appraisal and provision of finance where other sources typically fail.
- **A “two UDF” structure:** which, for example, can be made up of one UDF focused on Cities (the “*Cyprus Cities Fund*” or “CCF”) and the other on national infrastructure (the “*National Infrastructure Fund*” or “NIF”). The CCF can act as a line of credit or equity fund for municipalities to apply to with economic development projects – meeting much of the stated requirements of municipalities during our consultations. The NIF could be more specialised in major infrastructure investment (such as desalination or water treatment) and proactively engage with major investors to drive forward Cyprus’ infrastructure investment plan.

5.2.2.2 Operating the UDF

The UDF will be required to act as custodian of JESSICA monies from the Planning Bureau and manage their investment within the requirements of the Operational Programme. The JESSICA guidance notes from the EU does not set out any detailed requirements for the “financial” and “non-financial” management role the UDF should perform in setting out an investment portfolio. This role can be defined by the Planning Bureau and tendered competitively within Cyprus.

It is likely that the role of any UDF established for Cyprus would be focussed on proactively developing project opportunities with partners, drawing them together into suitable investment bundles within UDFs to be funded by the JESSICA Structure. We have therefore reviewed a number of facets within the UDF operation and its likely constitution in order to illustrate the role the UDF could play. This first area for consideration is the control of the UDF (usually through an “Executive Board”) and then the day to day operational roles (usually through a “UDF Fund Manager”).

5.2.2.3 The UDF Executive Board

A small “Executive Board” is recommended to oversee the practical tasks associated with the above role. This Board will be comprised of representatives of all the major investors in the UDF (including the Holding Fund Manager, if one is established, and potentially a senior Planning Bureau official). This Board will control the investment of the UDF and take the ultimate decisions on deployment of ERDF money. In overview the UDF Executive Board will be tasked with:

- The administration of the Fund Manager’s contract and be responsible for the investment decisions of the UDF.
- Drawing up a clear investment policy for the Fund Manager, in line with the “spirit” of the JESSICA initiative outlined earlier in this report.
- Considering UDF investment proposals as prepared by the Fund Manager in line with investment policy.
- Supporting the Fund Manager through influence with public and private sector partners to develop investment opportunities for the Structure, including:
 - Drawing complementary projects together;
 - Acting across public sector agency boundaries as part of the “joined up delivery” agenda to drive project development; and,

- Providing feasibility funding for project development work (sourced for the Holding Fund investment returns).
- Appraising and signing off on UDF investments as they arise.

5.2.2.4 The UDF Fund Manager

The chapter has outlined the need to appoint, following a tendering procedure, a Fund Manager for the UDF. This is the pivotal role for the day to day running of the UDF and through this function the majority of the UDF's objectives will be achieved.

The Fund Manager's role is multifaceted and not likely to be undertaken by a single person. It is more likely to be a small team that utilises specialist expertise as and when required to ensure that any skills, gaps or technical expertise is covered in the day to day running of the fund. The following list summarises the key tasks of the fund manager.

- Agreeing an overall strategy and investment policy for the UDF, for approval by its Executive Board, including criteria for the selection of appropriate project investments.
- Assisting with identification and appraisal of integrated and sustainable urban development plans considered central to a UDF's business plan.
- Agreeing and launching calls for expression of interest addressed to project promoters; appraisal and selection of projects in accordance with the guidelines agreed in the ERDF Funding Agreement or adopted by the UDF Investment Board.
- Implementing approved investments in projects in accordance with guidelines established in the Funding Agreement and as approved by the Executive Board.
- Monitoring and reporting to the Executive Board on the performance of investments in projects.
- Assisting in establishing appropriate audit policies and procedures with the Managing Authority and other relevant authorities at a national and EU level.
- Defining the recycling provisions of the UDF; including the re-utilisation of resources returned from investments in projects or, where applicable, left over after all guarantees have been honoured.

- Negotiating and establishing contractual arrangements, including appropriate exit provisions, between the UDF and Planning Bureau.

5.2.3 Early Conclusions on the UDF Requirements for a JESSICA Structure in Cyprus

Based on our analysis of the project and organisational landscape in Cyprus, we have noted the following points that should be considered by the Planning Bureau in its wider decision on whether to adopt the JESSICA structure in Cyprus:

- An approach adopting a simple structure could be followed due to (a) the likelihood of relatively small initial allocation of funds to JESSICA and (b) the inexperience with such urban investment delivery vehicles in Cyprus. One or two UDFs at most could provide a clear message to stakeholders on the availability of a source of funds for projects within the regeneration agenda.
- Building on the above point, the nature of projects reviewed indicates that infrastructure investment is likely to be a significant portion of potential JESSICA investments suggesting that a single UDF, acting in an investor role, can fulfil the requirements of local stakeholders.
- Proceeding with a simple UDF structure without a Holding Fund would save on part of the management fees at Holding Fund level. However, a direct result of such a decision would be that, the expertise of the Holding Fund Manager, which potentially could be the extensive know how of the EIB, would be lost.

6 Proposed Structure for Cyprus

6.1 Introduction

The objective of this section is to outline a possible structure for further consideration by the Planning Bureau for JESSICA in Cyprus. The structure is put forward on the basis that preliminary discussions on the efficacy of JESSICA for Cyprus result in its adoption being considered desirable.

On this basis, the key factors in setting up a JESSICA architecture for Cyprus are considered. This summarises findings from a review of the National Operational Programmes, potential suitable projects, feedback from project promoters and analysis of the Cypriot economy.

6.2 Summary of Study Findings

This section outlines the interpretation of these findings within the parameters of the JESSICA instrument. It is not the only option that could be adopted, as other experience from across the EU suggests, but it represents current best practice.

- Operational Programme: the final allocation decision rests with Cypriot authorities (i.e. the Cyprus Government and the Planning Bureau) however an allocation of potentially €20 to €30 million would appear to be a reasonable amount to be initially committed to JESSICA. This figure is substantiated by the project case studies elaborated further in chapter 7 of this report.
- Potential Project Pipeline: mainly focused on infrastructure investment and urban place-making.
- Feedback from Consultations: organisation ability to plan and deliver projects already established, but potential exists for a new form of public investment to be integrated into funding strategies.
- General Analysis of the Economy: requirements from private investors seem to be focused around de-risking of early project cost and providing a “risk buffer” where significant proportions of a projects future demand assumptions are unclear.

6.3 Single UDF JESSICA Structure - "Cyprus Cities and Infrastructure Fund"

The diagram below highlights the preferred structure conclusions for this study.

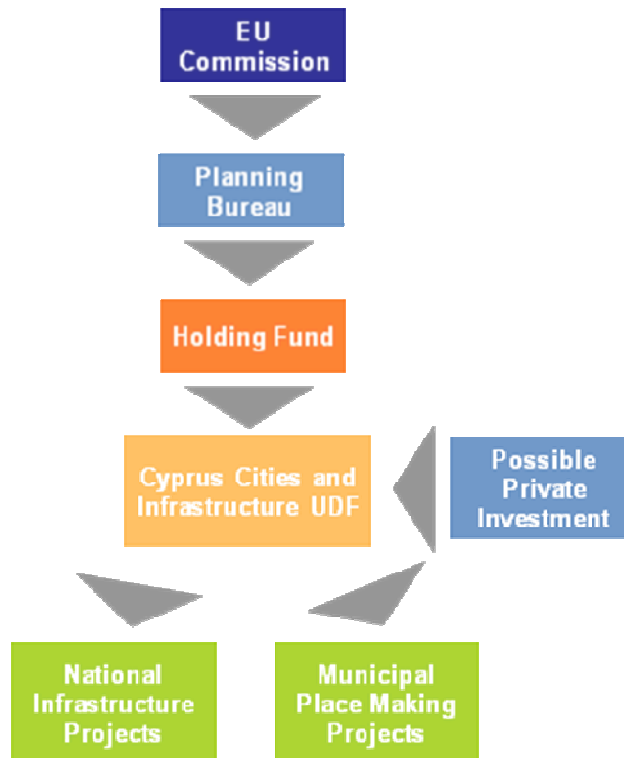


Diagram 6.3.1: Proposed JESSICA Architecture for Cyprus

A Cyprus Cities and Infrastructure UDF is proposed as an “Investor” model fund, which focuses primarily on the appraisal and project opportunities developed by other agencies, to place debt, equity and guarantee investments. Later sections of the report illustrate some possible scenarios for potential investments and show the UDF associated cash flows.

The funds investment focus will be broad and apply to any eligible project consistent with the Operational Programme, with the additional criteria of being able to generate a return to repay the UDF’s initial investment in a project, plus any returns where applicable.

Under this option, the Planning Bureau would procure a UDF management function and possibly an external private sector investor into the UDF. Early indications are that any private investment is likely to be in the form of a “term loan” from a commercial bank, with structured interest and repayment terms. It is

unlikely that an equity partner will come forward at the very early stage, although this possibility should not be precluded. Match funding from the state should also be included at the UDF level.

The UDF would set up a management function to source appraise and structure potential deals, with an Investment Board to oversee and approve its activities.

Under this scenario, and especially if further UDFs are anticipated, it seems reasonable to set up a Holding Fund, appointing the EIB as Holding Fund manager, in order to secure experience and technical know-how for the JESSICA structure.

6.4 Other Possible Structures and Future Structure Evolution

As outlined earlier in the section, we are aware of other applications of the JESSICA mechanism from across Europe, which could be applied to Cyprus (albeit under different conditions). In the interests of informing a balanced debate between the Planning Bureau and the EIB, the following list summarises specific considerations that have been measured during the study. Some of these options were not deemed to be a preferred approach at this time, and for these cases, an explanation as to why they were not preferred is also provided:

- Use of a Holding Fund: The amount of ERDF likely to be allocated to JESSICA is a factor that should be carefully considered. The main benefits of the Holding Fund are:
 - Using it as a repository if it is likely that ERDF monies will not be spent in the OP period. Our review of the current project pipeline and past absorption rates in Cyprus suggest this is not a major issue. However, another factor to be taken into account is the readiness of projects and our study has indicated that there is work to be done until projects are ready to advance to implementation.
 - Generating returns from deposited monies to fund administration costs and feasibility studies. The current financial climate is generating low returns for deposited capital, which is unlikely to cover administration cost or provide for any returns. Furthermore, the level of funds deposited is another factor worth considering as it will have a direct impact on the level of interest earned.
 - Provide for a supervisory function to oversee the set up of UDFs, particularly within the support of the EIB if appointed Holding Fund Manager. Given the small number of UDFs likely to be established (likely to be one in the initial phase), the added benefit to be gained by the Planning Bureau from outsourcing a UDF set up has to be considered. A

combination of the Planning Bureau and Cypriot financial services sector could possibly establish this initial UDF. However, given the fact that UDFs are a new concept for Cyprus, the adoption of a Holding Fund and the appointment of EIB as the Holding Fund Manager appears to add value to the entire process due the EIB's experience with the setting up and operation of UDFs.

- Multiple UDFs focusing on Cities and Infrastructure: There is precedent of setting up similar structures that focus on a single city region or urban area. These are easy to identify (i.e. around Nicosia, Larnaca, Limassol, Paphos and, possibly, Famagusta) however, project pipelines and current local organisations appear to be delivering economic regeneration without the need of additional UDF support. What did appear necessary from the consultation work, was for a fund to be able to enhance the nature and substance of this current delivery. No evidence has been identified to suggest a national UDF could not provide the same level of financial support that a locally based UDF could. This argument also explains why a separate national UDF is not required for major infrastructure projects, as it is evident that project promotion is adequately resourced while financing is not always available in the best form.
- Private Sector investors within the UDF: while not comprehensive at this time, the pipeline of potential JESSICA projects suggests the best role for private finance is at the project, not UDF level. Given that, at an initial phase, the study is suggesting a simple, single UDF approach, a group of potential institutional investors who may have the appetite for, or indeed understand the risks of, may be approached for investing in these types of activities. With the exception of the Government and municipalities, other private sector potential investors with such a wide project investment scope may become interested in investing in the UDF. Given the recent interest expressed by Middle Eastern funds to participate in investment activities in Cyprus, either through the collaboration with the Church of Cyprus (another potential investor in a UDF) or other non-public sector organisations, it is easy to assume that the same funds can participate in an urban regeneration fund. It is important however, that the Planning Bureau as the Managing Authority conveys the correct signals to these potential investors. The most prominent signal is the level of initial investment delivered to the UDF. A modest investment is likely to convey the wrong message to the community of potential private investors leading them to conclude, and therefore avoid investing in the fund, that the UDF is not a serious option for the delivery of its pronounced objective. A substantial level of investment on the other hand will help attract “ethical investors” who are interested in securing an adequate level of return on their investment while at the same time help promote “socially valuable” objectives.

6.5 Resources

Based on the above structure being deployed, the following resource issues then become important for the Planning Bureau to resolve, possibly with external support.

- Formally allocate funding from the Operational Programme. This will include considering if any reallocation of current grant monies needs to take place and the associated impact on projects. This review should also consider if existing 'grant funded' projects can be re-cast so that they can be early JESSICA investment opportunities.
- Identify the source of required matched funding to be placed in the UDF. This may have to be allocated from the National budget, as the current preferred UDF structure does not have any geographical constraints at a municipal level. It is therefore unlikely or attractive for Municipalities to provide any local contributions, with other strong commitments that investments will be retained locally.
- Set up initial technical and investment panels to help promote the JESSICA concept, assist local authorities with the refinement of their project ideas and plan early UDF investments. In addition, these panels can engage with the market for private sector investment contributions in an attempt to secure the participation of private sector entities.

6.6 Deployment Challenges

Finally, the following deployment challenges have been identified during the course of the study. This list is not exhaustive, but reflects our current expectations of key risks and barriers to be overcome and it is recommended that the Planning Bureau commissions a more detailed implementation review should it decide to adopt JESSICA.

- State Aid and legal compliance: notwithstanding the supplementary legal study that is now underway, further work may be required to ensure implementation compliance.
- Procurement of the UDF: to comply with EU Legislation on the use of JESSICA funds and wider procurement, a tendering process will have to be instigated. This process will procure the management and operational aspects of the fund, plus any private partner investment that may arise at the UDF level. The Planning Bureau should therefore consider what the terms of reference will be for the UDF and set out its detailed requirements so that objectives are not diluted through the procurement process. In the case that a Holding Fund structure is followed,

the procurement procedure and all related elements will be taken care of by the Holding Fund Manager.

- Marketing and promotion: At launch, the UDF will be a new financing tool with no track record in the country. It is therefore vital that the fund's managers devote enough time to raising its profile, help early adopters and furthermore, ensure that early demonstration projects are successful.

7 Potential Investment Opportunities

7.1 Introduction

During the course of this study, a number of projects that satisfy the general criteria set under JESSICA have been identified. These projects form a long list that could be assessed to appraise the potential of JESSICA as a mechanism for delivering ERDF investment in line with national Operational Programmes. To illustrate how JESSICA could be used on example projects, project promoters were asked complete a template to capture key information and data in relation to project proposals. The requested information included:

- A description of the project;
- The project's strategic fit with Operational Programmes;
- The project's alignment with overall strategic objectives;
- Key risks and benefits associated with the project
- Project specific cost information on capital and revenue, where applicable;
- Project management and project delivery details;
- Role of the private sector in the project;
- How JESSICA investment may be utilised towards delivery of the project.

A total of 15 projects have been identified through discussion with key regeneration stakeholders that appear, on initial review, to be suitable for demonstrating how JESSICA could be used in their delivery. These projects have been categorised under six thematic areas and are elaborated on in the section below. Furthermore, there appears to be a strong case of “bundling” together some of these projects, i.e. combining two or more projects under one bigger project, creating synergies through economies of scale. The bundling of projects means that investors would have a more diversified investment scope and therefore, a decrease in the risk related to their investment. Through the creation of a combined bigger project made up of a combination of smaller projects means that the risk of low or no recovery of the investment in one component project is decreased as another component project may generate sufficient returns that counterbalance the under-performance of the single project. Furthermore, the grouping of

projects may make the management of projects less complex enabling specific delivery skills to be utilised and not diluted across a range of projects.

7.2 Identified Potential Projects

The table below is a list of potential projects identified during the course of the current study. These projects have also been grouped by a project thematic area.

	Project Description	Sponsor	Estimated Investment €mil
Project Thematic Area:			
(A)	Transport		
1	Nicosia Central Core Multi-Storey Car Park	Nicosia Municipality	32.0
2	Bus Stops and Shelters	Ministry of Communications & Works Public Works Department	30.1
3	Bus Acquisition, Maintenance and Services	Ministry of Communications & Works Public Works Department	270.0
4	Public Transport Operation and Parking Management	Ministry of Communications & Works Public Works Department	785.0
5	Bicycle Sharing Programme	Municipality of Aglantzia	N/A
Project Thematic Area:			
(B)	Regeneration & Revitalisation		
6	Refurbishment of Pallas Square in Larnaca City Centre	Larnaca Municipality	1.5
7	Student Dormitories	Municipality of Aglantzia	7.9

Project Thematic Area:			
(C)	Community & Recreation Facilities		
8	Municipal Swimming Pool and Spa Centre	Municipality of Aglantzia	N/A
Project Thematic Area:			
(D)	Water Supply		
9	Water Works in the Distribution Network	Water Board of Nicosia	31.0
10	Paphos Desalination Plant	Water Development Department (WDD)	30.0
11	Khirokitia – Famagusta Pipeline	Water Development Department (WDD)	35.0
12	Paphos Potable Water Conveyor	Water Development Department (WDD)	15.0
Project Thematic Area:			
(E)	Infrastructure and Public Utilities		
13	Street Pavements in accordance to Article 17 of the Streets and Buildings Regulations Law	Municipality of Aglantzia	N/A
14	The Limassol Waste Water Treatment Plant	Sewerage Board of Limassol - Amathus	30.0
Project Thematic Area:			
(F)	Renewable Energy		
15	Photovoltaic Parks in WDD Premises	Water Development Department (WDD)	1.1
Total Estimated Investment			1,268.6

Table 7.2.1: List of Identified JESSICA Projects and Project Category

Most of the identified project candidates lie in the category of transport reflecting the fact that the lack of efficient transport systems and especially the lack of public transport constitute the major problems in the urban areas of Cyprus affecting the air quality in cities, the quality of life of citizens and the environment in general.

Cyprus has an acute problem of water shortage. Providing continuous drinking water in urban areas is a problem and the government in 2008 has applied a rationing system, supplying households with drinking water during only 3-4 days per week. The underground drinking water network system is old resulting in losses of valuable drinking water. Cyprus is an island with a lot of tourism. Urban areas and especially coastal cities have a big number of visitors every year, especially during the summer months. This increases the demand for drinking water which is a scarce resource in Cyprus. There is therefore a rising need for the creation of desalination plants of various sizes-to serve urban areas. This very important need for urban areas is reflected in the proposed water supply projects. Apart from water supply projects two more projects are proposed in the category of public utilities which concern street pavements improvement and a waste treatment plan in Limassol.

The remaining proposed projects involve community facilities such as a swimming pool and student dormitories and a regeneration / revitalisation “place making” project in Larnaca.

It should be noted that the project team put a lot of effort in trying to make all the relevant bodies familiar with the new JESSICA initiative. It seems that more time is needed for all interested parties and especially Local Authorities to become familiar with JESSICA. Government bodies such as the Water Development Department and semi-government bodies such as Water Supply Authorities were more organised than Local Authorities and gave better responses. However, the project team believes that once the JESSICA initiative is applied in Cyprus with some strong and attractive projects which could serve as catalysts the possibility of success with more Local Authorities and other actors joining the effort, is high.

7.3 Constraints to Project Delivery Identified

The key constraint to project delivery of current investment opportunities is the availability of robust financial information, particularly to the level required to make an investment decision. Project proposals that emerged during the course of this study are project concepts which have not been developed into well developed project studies. In order to approach investors inviting them to fund a project, more robust financial information will be required helping them reach a more informed decision on whether to commit to the opportunities presented by JESSICA. In detail, investors will need to know the following:

- An accurate estimate of the scale of investment required;
- How long it will be until the investment starts to yield returns;
- What is the level of expected profits on their investment and consequently, how long the payback period is; and,

- What are the identified key risks for the project and therefore, the level of risk associated with the investment.

The evaluation that was performed during the course of this study which involved 15 investment opportunities, identified projects with real potential for funding through JESSICA as they fit strategically with the national Operational Programmes and are aligned with overall strategic objectives. However, more detailed information is required and a more rigorous examination should be performed before it is possible to conclude whether projects are suitable to attract private sector investment. The information gathered at this point of the study cannot be considered as adequate for forming a complete picture and therefore, a definite proposition towards specific projects. The examination performed as part of this study is purely illustrative and does not confer any decision towards the inclusion or rejection in any JESSICA related financing of any of the projects discussed in the course of the current study.

7.4 Creation of a Greater Deal Flow

The implication for JESSICA and its delivery mechanism appears to be generating a sufficient pipe line of investment options that a UDF can fund, even if these proposals can benefit from further analysis. A clear indication that the Managing Authority commits to the adoption of the JESSICA initiative is likely to result in the emergence of even more project proposals. Therefore, a UDF could have a wider role than the traditional UDF model with the objective of increasing the number of investment opportunities it participates in. Such roles could be:

- Provide early funding to work up feasibility studies, business case materials and assist in the refinement of project ideas;
- Act as a co-ordination body to bring together complimentary projects into a collective investment; and,
- Take a lead role in bringing together other external funders into a UDF.

The examples illustrated in this study are purely indicative at this stage however, they are valuable tools in the effort to shape the mechanism through which JESSICA can be deployed in Cyprus.

7.5 Case Studies – Urban Regeneration Proposals

7.5.1 Case Study A: Nicosia Central Core Multi-Storey Car Park

7.5.1.1 Project Background and Description

Nicosia Municipality (Public Enterprises) Ltd is a wholly owned subsidiary company of the Nicosia Municipality and has been created for the sole purpose of entering into projects which aim at the regeneration of the city areas. This company plans to enter into a joint venture agreement with the owners of an existing centrally located building with the scope to redesign and develop the existing structure into a multi-storey car park, in conjunction or not with the existing use of the building that is a small shopping mall.

The centre of Nicosia is laden with insufficient car parking spaces and unregulated private car parks with expensive tariffs. The project aims to provide parking facilities for the central business district of the town at better rates. The provision of a centrally located parking place will further regenerate the town by attracting more shoppers and offices.

The project sponsor proposes to enter into a joint venture agreement with the private sector owners of an existing centrally located building with the scope to redesign and develop the existing structure into a multi-storey car park, possibly in conjunction with the existing use of the building that is a small shopping mall.

7.5.1.2 The Project as a Part of Local Development Plans and Operational Programmes

Local Development Plans

The parking policy of the Nicosia Local Plan aims at the provision of an adequate number of parking places in the Nicosia City Centre within the general integrated transport strategy of sustainable mobility. The number of parking places to be provided should be such so as to support vital city centre activities without jeopardizing the policy for the promotion of public transport. Within the framework of this general transport and parking policy, the Local Plan also contains policies which offer incentives to the private sector for the creation of public parking places.

In addition, the Municipality of Nicosia has completed a specific parking study for its central area which follows these criteria and which proposes specific policies regarding on-street and off-street parking, parking fees, enforcement etc. The proposed multi-storey car park in the central area of Nicosia complies both with the Local Plan Transport and Parking Policy and the recommendations of the specific parking

study of the Nicosia Central Area. The proposed project will also complement the efforts of the revitalisation of the centre of Nicosia which is a divided city.

Nicosia's Municipality planning strategy has been prepared with the aim to re-establish the role of the city core by trying to attract new development in the centre and promote high quality urban design without an increase in car traffic which overloads the road network and constrains accessibility and pedestrian mobility.

Operational Programme

During the last decades the central core of Nicosia has suffered decay and abandonment because of its vicinity with the buffer zone that divides the city. Factors such as the lack or insufficient existence of private sector investment, a reduction in the number of businesses located in the city centre and the deterioration of buildings have accelerated the decline in the city's centre. Private businesses have moved to the city's outskirts and public open spaces and infrastructures have been neglected.

The project is part of the Municipality's overall strategy for revitalisation of the deteriorating city centre addressing the objective set under Priority Axis 5 for the "Revitalisation of Urban Areas" as this is set under the Operational Programme for "Sustainable Development and Competitiveness".

7.5.1.3 Project within the JESSICA Context

The project sponsor proposes the formation of a joint venture with private sector party for delivery of this project. The private sector party is the owner of the building under consideration. The project proposes the planning and design for the transformation of an existing building located right in the middle of the business centre into a multi-storey car park which may be combined partially with the operation of an existing shopping mall. The current position of the private investors in question is a positive one and are willing to participate in the venture.

In view of this context, an investment on the part of a JESSICA UDF is considered to be particularly beneficial as it will assist in the delivery of the construction elements of the proposed project and furthermore, it will aid in the off-setting of market caution and perceived risk during the initial development phases of the initiative. The form of finance sought after by the UDF is that of a loan at a favourable interest rate, as opposed to the market rate.

The proposed project will be in a position to generate a healthy flow of revenue streams immediately upon completion, hence satisfying the "revolving returns" JESSICA requirement. Repayment of the required loan will be achieved through rental of parking spaces on a monthly basis and parking fees

collected on an hourly basis. The level of rental values or hourly parking rates have not been established yet however, these are likely to be greatly affected by the cost of capital as that is established by the loan funding agreement. A loan with favourable terms will facilitate the provision of favourable rates as these will be rolled over to the end user of this facility making the effort towards the city's regeneration a viable endeavour.

7.5.1.4 Key Project Indicators

Benefits and Risks

The section provides an overview of the most evident benefits directly associated with the project together with acknowledgment of some risk factors likely to pose a barrier to the successful delivery of the project, as these have been identified by the project sponsor.

Benefits

- Price regulated sufficient car parking facilities to relieve congestion and ease traffic flow.
- Provision of substantial support of the policy for differentiation of areas according to models of mobility (areas of limited car access, areas of pedestrian access).
- Facilitate the Municipality policy for the reduction in the requirements for private parking.

Risks

One, nonetheless, significant risk factor has been named by the project sponsor, this being the delay of the "NICOSIA INTEGRATED MOBILITY MASTERPLAN" which constitutes the overall framework for the traffic and transportation strategy for Nicosia.

Key Investment Indicators

At this stage of the project, the project sponsor cannot have a completed view in terms of the level of revenue likely to occur from the project. A major factor in the determination of this projection is that cost of capital that will incur as a result of the loan that will be secured for the necessary construction work. As already mentioned above, the aim of the project is the provision of a large number of parking spaces at a competitive cost for the consumer; a factor greatly influenced by the presence of a JESSICA type lending partner.

Capital Works

The project is short in duration, expected completion within one year of commencement. This is a factor worth noting as the revenue stream, which will be immediate upon completion, will start in a short period of time. Based on calculations provided by the Project Sponsor, repayment of the principal plus interest will be completed in ten years.

Project Start Date	2010
Project End Date	2011
Total Cost - €	32,000,000

Investment Breakdown

Funding Sources	Amount	Operations Funded
Nicosia Municipality (Public Enterprises) Ltd	€m 0.5	Operational expenses such as planning and design
JESSICA - Loan Capital	€m 11.5	Building cost
Existing Land and Building	€m 20.0	Private sector contribution
Total Investment	€m 32.0	

7.5.2 Case Study B: Refurbishment of Pallas Square in Larnaca City Centre

7.5.2.1 Project Background and Description

The Municipality of Larnaca, the Project Sponsor, is the metropolitan local authority for the greater Larnaca area and is responsible for approximately 60,000 inhabitants in 6,000 hectares. The Municipality is responsible for urban planning and transport and is dedicated in providing sustainable solutions both in the areas of urban planning and urban transportation.

The project proposes the refurbishment of Pallas Square which is located in the Larnaca City Centre. The percentage of open public spaces or squares in the urban areas of Cyprus is very low. In Larnaca, very few such spaces exist and the ones that do, are generally, due to their location, in need of refurbishment.

In addition, city centres need innovative revitalisation schemes which will improve public urban space and also enhance and attract new uses in the area (commercial, entertainment, cultural, residential etc).

Pallas Square, is an area located in the centre of Larnaca, in an ideal location and with huge potential for redevelopment and revitalisation. The project will transform the square into an open public space attractive to pedestrians and cyclists, with additional green areas. There are a number of traffic problems in the area and there is also therefore the need for the planning and redirection of the traffic flows in and around the square, to assist in the traffic mobility and the parking congestion of the area. The area is currently occupied mainly by coffee shops and businesses which do not work to their maximum potential. Upgrading of the area will also result to an improvement of the square tenants. In addition, the proposed project will also involve the complete upgrading of infrastructure (electricity, telecommunications, water supply, drainage, pavements) which are deemed to be inadequate for the area.

7.5.2.2 The Project as a Part of Local Development Plans and Operational Programmes

Local Development Plans

The general policy of Local Plans concerning urban centres is the strengthening and revitalisation of such areas so as to function as main centres of a multitude of activities (commercial, entertainment, office, residential etc) serving the wider urban areas. City centres need innovative revitalisation schemes which will improve public urban space and also enhance and attract new uses in the area (commercial, entertainment, cultural, residential etc). Such schemes could be more effective if there is cooperation between the public and the private sector, especially business people utilising the area. Schemes could involve upgrading/creation of public squares/piazzas combined with entertainment uses (restaurants, galleries etc), creation of parks, upgrading of public buildings with traditional/heritage architecture and leasing them to the private sector to be used as cultural centres, theatres etc.

The refurbishment of Pallas Square in the Larnaca city centre which is a project proposed by the Municipality of Larnaca, satisfies the criteria for urban renewal illustrated above. Furthermore, implementation of the project could act as a catalyst in the effort for the revitalisation and upgrading of the wider area. This effort can be an example which will ignite a chain effect triggering the involvement of the private sector which in turn can benefit from the necessary incentives, such as low capital funding, for private investment in similar projects in the area or other deteriorating areas within the city centre.

Operational Programme

From a different perspective than that illustrated in the previous case study, the project also addresses the important issue of the “Revitalisation of Urban Areas” targeted by Priority Axis 5 of the Operational

Programme for “Sustainable Development and Competitiveness”. In addition, the project is an integral part of the Municipality’s overall strategy for revitalisation of the deteriorating city centre.

7.5.2.3 Project within the JESSICA Context

Under JESSICA criteria, a project should have the ability to repay, at least, its initial investment. The proposed project will generate a stream of revenues through rental income from shops, coffee shops and restaurants. The improved surroundings will not only promote higher standards of services provided by businesses occupying the shops but also create more shops that can be rented by the Municipality.

The project will most likely be delivered by a contractor which will be selected through the tendering procedures of the Government and of the EU, private sector investment is nonetheless, a key component for the success of the project as individuals and businesses will rent the created premises.

7.5.2.4 Key Project Indicators

Benefits and Risks

The following have been cited by the Project Sponsor as key benefits steaming from the project and risk factors posing constraints to its successful implementation.

Benefits

- Significant reduction of traffic congestion in the area which creates environmental and noise pollution.
- Increase the attractiveness of the area thus increasing the amount of daily visitors therefore resulting in more work for the shop owners.
- Create income for the Municipality by renting the extended pavements to shop owners for use as coffee shops or restaurants.

Risks

- The new traffic arrangements may be a factor discouraging motorists from the area who might move to an area with easier parking access.
- Low demand for the renting of pavements for coffee shops and restaurants.
- Local organised groups might object to the new traffic arrangements.

Capital Works

Project Start Date	2010
Project End Date	2011
Total Cost - €	1,500,000

The total value of the required investment has been calculated in accordance to a similar project which has been included in the Local Operational Programmes Project list for the current programming period on behalf of the Municipality of Larnaca. The benchmarking project is the “Regeneration of the Squares of Ayios Lazaros, Castle and Ermou Areas”, illustrated under Chapter 3.

7.5.3 Case Study C: Student Dormitories

7.5.3.1 Project Background and Description

This next project proposal has been provided by the Municipality of Aglantzia, the Project Sponsor. At the moment, the Project Sponsor is not able to provide any financial estimates such as an indicative required level of investment or expected revenue streams. Lack of resources, mostly financial, has prevented the Municipality from looking into this opportunity further as the financial means for the realisation of the idea are missing. The project however, serves as an example of how JESSICA can intervene and address this market imperfection.

The campus of the University of Cyprus sits within the Municipality's geographical boundaries. Property of an area of 3,865 square metres of land situated near the university campus is owned by the Municipality. The proposal involves the building of Student Dormitories which will be equipped with cafeterias providing meals for the resident.

7.5.3.2 Project within the JESSICA Context

The general aim of the Cyprus Government is the promotion of Cyprus as a centre providing tertiary sector services such as health, education, banking in the wider area of Europe and the Middle East. Tertiary Education is thus becoming an important sector of the economy of Cyprus. This trend has created an urgent and continuously increasing need for creating student accommodation facilities. The Local Plans contain specific land use policies for the location of student dormitories. The general aim of these policies is the balanced distribution of student dormitories in the urban space at suitable and specific locations serving the needs of the students and minimising the impact on the amenities of residential areas. The proposed project in Aglantzia satisfies the Local Plan criteria and serves the urgent housing needs of the students of the University of Cyprus. In addition, the proposed idea satisfies the

JESSICA criteria for Operational Programmes compliance as it will result in the development of an otherwise unutilised area.

For the delivery of the project, the Project Sponsor is proposing the collaboration between public and private sector parties as follows:

- **Public Sector Participation:**
 - Municipality of Aglantzia
 - Provide the land and part of the construction cost
- **Private Sector Participation:**
 - Construction Company
 - Undertake construction
 - Hotel and Leisure Management Company
 - Management of dormitories and student facilities
 - Alternatively, the project could be delivered under a BOT arrangement.
- **JESSICA UDF**
 - Co-finance the construction cost either through loan or equity

Revenue from the project will be generated from rent paid by the residing students and food and drinks consumed in the cafeteria.

The idea is still at a very early stage and more work is required before reaching a conclusion. JESSICA has an important role to play assisting the Project Sponsor to prepare a feasibility study and in the refinement of this project idea. Given the right incentives and proper examination, this proposal could serve as a good case for JESSICA investment.

A very rough sizing of the required investment, based on the permissible construction area, would indicate an amount of €7,884,600.

The assumptions under which this figure was reached are:

- The building plot is 3,865 square metres;
- The plot ratio is 120% and therefore the building will have an area of around 4,638 square metres; and,
- An estimated building cost provided by an independent construction company for buildings used as student dormitories is approximately € 1.700 /square metre.

7.6 Case Studies – Infrastructure Enhancement Proposals

7.6.1 Case Study D: Bus Acquisition, Maintenance and Services

7.6.1.1 Project Background and Description

The project examined has been proposed by the Department of Public Works of the Ministry of Communications and Works. The Ministry of Communications and Works is the Ministry responsible for formulating and executing the Government's transport policy. It has recently launched an ambitious programme aiming at the enhancement of Public Transport with an overall goal of increasing the share of bus ridership from 2% to 10% of the total trips.

The proposed project has a nationwide scope and addresses the serious transport issues faced within urban areas in Cyprus. It suggests the purchase, maintenance and servicing, provision of equipment and other services of buses which in turn are leased to private bus operators. The Ministry of Communications and Works is currently in the process of awarding public service contracts for the provision of Public Transport services to a number of operators throughout Cyprus. There will be one contract awarded for each district plus another one for intercity services. The objective is to achieve the formation of new companies in which all the existing operators in each district shall be shareholders. The project envisages the purchase, maintenance and servicing, provision of equipment and other services and leasing of the buses to the bus operators for an annual fee.

7.6.1.2 The Project as a Part of Local Development Plans and Operational Programmes

Local Development Plans

The lack of an efficient Public Transport System in Cyprus is one of the biggest problems affecting the mobility and quality of life of citizens in city areas. The general strategy of the Local Plans is the

comprehensive improvement of urban public transport systems in the four main urban areas serving their wider hinterland. Some of the measures which are proposed for public transport improvement include the upgrading of existing bus stop facilities, the reorganisation of bus routes, the creation of new, modern and flexible fleets of buses and the creation of modern bus stations. Specific public transport mobility studies have been prepared for Nicosia and similar studies will follow for the other urban areas. The Local Plan public transport policies are further elaborated by the Programme for the Enhancement of Public Transport of the Ministry of Communications and Works. The proposed project, as part of this Programme, aims at promoting the use of public transport as opposed to the use of the private car in the general context of sustainable urban development.

Operational Programme

The objectives of the Operational Programme for Sustainable Development and Competitiveness are

- a) the improvement of the attractiveness of the country through the improvement of its basic infrastructure;
- b) the promotion of a society of knowledge and innovation and the improvement of the creative environment; and,
- c) the establishment of sustainable communities in urban and rural areas.

The Programme for the Enhancement of Public Transport aims exactly at promoting the use of sustainable modes of transport, as opposed to the use of the private car and as such will contribute to all three of the above objectives and particularly Objective (a).

7.6.1.3 Project within the JESSICA Context

Within the Operational Programmes context efforts toward the improvement of public transport may be put into place to obtain opportunities for the allocation of JESSICA funds. According to JESSICA criteria, these funds must be allocated to urban renewal programmes, with projects that are able to generate “revolving returns” for reinvestment in urban development. The project will generate a stream of revenues through the leasing of buses.

7.6.1.4 Key Project Indicators

Benefits and Risks

The section provides an outline of key benefits, inclusive of economic benefits, as opposed to risks associated directly with the project.

Benefits

- Achieving economies of scale, since buses will be purchased for the whole of Cyprus, rather than by each company at the district level.
- Flexibility in that changing needs of the individual companies regarding number and mix of vehicles can be accommodated more easily by changing the lease structure. In addition reserve capacity can be held by the purchasing company which in total will be smaller than the total needed by each operator.
- Better maintenance of the vehicles, since the purchasing company shall have expertise in maintaining and servicing buses which the operators may lack. Economies of scale will also result due to lower overheads and ability to store a smaller number of spare parts centrally.

Risks

- The operators may not accept this arrangement.
- Substantial delay in going ahead with the project may mean that the purchase of the buses is already included in the service contracts of the bus operators. In addition, the Ministry's plan of awarding the service may not succeed and an alternative arrangement may either be delayed or be based on a different framework.
- If this company fails then all the operators will be affected.

Key Investment Indicators

Capital Costs	€000
Purchase of Buses ⁽¹⁾	240,000.0
Construction of Depots ⁽²⁾	15,000.0
Purchase of Equipment	15,000.0
Total Capital Cost	270,000.0
⁽¹⁾ Number of Buses	1,200
⁽²⁾ Number of Depots	3
Annual Operating Expenses ⁽³⁾	€000
Financing Expense	300,000.0
Operating Expenses	300,000.0
Total Operating Cost	600,000.0
Annual Revenues ⁽³⁾	€000
Annual Lease per Bus	60,000.0
Total Operating Revenue	1,440,000.0
Profit - €000	570,000.0
⁽³⁾ Concession Period (years)	20
Net Present Value (Discount Rate 7%)	106,452.0
IRR	5.50%
Payback Period (years)	12

Source: Department of Public Works

Capital Works

Project Start Date	01/07/2010
Project End Date	30/06/2015
Total Cost - €	270,000,000

Assumptions

The following hypothetical assumptions have been set for this case study and should under no circumstances be considered as recommendations. They are made solely for assisting in the delivery of this case study and in order to illustrate the involvement of JESSICA.

- Project is delivered through a collaboration of public and private sector entities;
- Five public sector organisations and five private sector entities participate in the project as shareholders; and,
- JESSICA provides a loan at favourable terms.

Having set out these assumptions, a theoretical investment breakdown, for demonstration purposes, can appear as follows:

Investment Breakdown		€000	%	%
Equity				88.0
Private Sector				
	Nicosia Regional Operator	23,750.0	10	
	Limassol Regional Operator	23,750.0	10	
	Larnaca Regional Operator	23,750.0	10	
	Paphos Regional Operator	23,750.0	10	
	Intercity Operator	47,500.0	20	
Public Sector				
	Government	59,375.0	25	
	Nicosia Municipality	11,875.0	5	
	Limassol Municipality	11,875.0	5	
	Larnaca Municipality	5,937.5	2.5	
	Paphos Municipality	5,937.5	2.5	
		237,500.0	100	
Debt				12.0
JESSICA				
	UDF Low Interest Loan	32,500.0		
Total Investment		270,000.0		

Furthermore, assuming that the Public Sector contribution to this project is financed by a Community Contribution under the Cohesion Fund, funding source for Priority Axis Basic Transport Infrastructure, it must be noted that this condition does not make the project an invalid option for JESSICA investment. Under current rules, Cohesion Fund monies are not eligible for investment in the JESSICA Structure; nevertheless, projects falling under Priority Axes funded by the Cohesion Fund are not out of scope for JESSICA.

7.6.2 Case Study E: Water Works in the Nicosia Distribution Network

7.6.2.1 Project Background and Description

This project proposal has been set forth by the Water Board of Nicosia (WBN) which has the overall responsibility for the management of the water distribution network for the Nicosia greater area. The table below provides a listing of the areas WBN's provision of water is extended.

Municipalities	Community Councils	Other Areas
• Nicosia	• Geri	• Ergates Industrial Estate
• Strovolos	• Tseri	• Nicosia Occupied Area
• Aglantzia	• Anthoupolis Settlement	
• Eggomi		
• Ayios Dometios		
• Latsia		

The WBN has 103,000 registered consumers, the equivalent of 330,000 individuals which corresponds to approximately 1/3 of the country's population. On the basis of 2007 figures, during which time there was an uninterrupted supply of water, WBN's water requirements came up to nearly 20 million cubic metres (19,981,040 cubic metres) with a peak in the daily consumption of 59,200 cubic metres during the summer months and a low of 47,200 cubic metres. On average, daily consumption during the year was approximately 54.8 thousand cubic metres. During 2008, WBN managed approximately 17,2 mil cubic metres servicing the same number of individuals but with interruptions in water supply imposed by the experienced water shortage.

The proposed project is aimed towards the improvement of the quality of the supplied water to consumers of the greater Nicosia area. It is set to be developed in a 4 year period and consists of 3 structural projects delivered by the Nicosia Water Board. The 3 smaller projects comprising this proposed project are:

- Construction of new reservoirs of greater capacity aiming at meeting the increasing demand
- Replacement of water mains thus improving network efficiency and quality of supplied water. Additionally, this project will generate sizable reduction in water losses.
- Installation of automated metre reading technology in consumer premises enhancing distribution measurement, observing unaccounted for water closer and promoting consumer conservation

Non-revenue water (NRW) is one of the major challenges faced by water distribution organisations internationally. The issue is of particular importance in countries or regions experiencing water shortages, as is the case with Cyprus.

One of the key objectives aimed by the WBN through implementation of this “bundled” project is the reduction in the volume of non-revenue water. The figure for 2007, a year of uninterrupted water supply, was 3.9 mil cubic metres or 19.44% of the distributed water.

Year	Distributed Water	Billed Water	Difference	Difference
	Cubic Metres	Cubic Metres	Cubic Metres	%
2008	17,221,900	14,861,739	2,360,161	13.7
2007	19,981,040	16,097,243	3,883,797	19.44
2006	19,091,891	15,356,967	3,734,924	19.6
2005	18,443,160	14,646,100	3,797,060	20.6

Source: Nicosia Water Board Web Site

7.6.2.2 The Project as a Part of Local Development Plans and Operational Programmes

Local Development Plans

According to the provisions of the Local Plans, all the areas which are included in development boundaries (housing, commercial, industrial and tourist areas) should ideally be covered by water supply utilities. The increasing population and activities in development zones have an increased demand for water supply. Due to the existing water shortage situation in Cyprus efforts are needed to save as much water as possible and to increase and upgrade the capacity of existing facilities to meet the growing demand. The aims of the revised Local Plans as stated in the relevant Reports of the Minister of Interior is to increase population and building densities in existing development zones rather than expanding development boundaries so as to promote sustainable compact cities. In view of this there will be an even greater demand for water supply.

Operational Programme

The project addresses objectives (a) and (c) of the Operational Programme for “Sustainable Development and Competitiveness” as these have been illustrated in the previous case study.

7.6.2.3 Project within the JESSICA Context

The project which addresses the crucial issue of water shortage will in addition provide an improvement in the quality of water supplied to Nicosia households.

In terms of the “revolving returns” nature of JESSICA it should be noted that even though the project does not have direct revenue streams, it is expected to facilitate repayment of the extended loan out of the income which results from consumption related charges. The revenue streams generated directly from the project is easily identifiable. Furthermore, cost savings in the form of reduction in non revenue water, a direct result of the project, are expected to be substantial, facilitating loan repayment.

In terms of private sector participation in the proposed project, this seems to be limited to a contractual agreement between the two parties. Such an agreement will be governed by the Public Sector Procurement directives.

7.6.2.4 Key Project Indicators

Benefits and Risks

Based on the feedback collected from the WBN, the proposed project is not faced with any considerable risks that should be raised.

Benefits

- Enhancement of the water distribution network.
- Improvement of the quality of the supplied water to consumers.
- Reduction of the Non Revenue Water.

Assumptions

The following hypothetical assumptions have been set for this case study and should under no circumstances be considered as recommendations. They are made solely for assisting in the delivery of this case study and in order to illustrate the involvement of JESSICA.

- The project succeeds in reducing the amount of NRW to below 10% of total distributed water;
- The unit price used in the calculation of water billing is fixed at an average price of 1.24 €/ cubic metre;
- Water consumption is held constant;
- The project is financed by:

- Loan from commercial bank at 6% flat rate,
- Loan from JESSICA at 2% flat rate; and
- Both loans will be serviced, to a great extent, from savings generated as a direct result of the project, i.e. the difference between the 2007 figure for NRW and the attained figure after project completion.

Key Investment Indicators

Capital Works

Project Start Date	2012
Project End Date	2015
Total Cost - €	31,000,000

Resulting Water Savings

Distributed Water	Billed Water	Difference	Difference
Cubic Metres	Cubic Metres	Cubic Metres	%
19,981,040	16,097,243	3,883,797	19.44
19,981,040	18,028,912	1,952,128	9.77
Annual Savings (Cubic Metres)			1,931,669
Annual Savings (€)			2,395,270

Project Financing and Repayment

Lending Party	Level of Loan	Interest Rate	Annual Loan Servicing		Time to Repayment
			Savings from Project	WBN Budget	
	€	%	€	€	Years
Commercial Bank	16,000,000	6	1,380,000	420,000	13.8
JESSICA UDF	15,000,000	2	1,020,000	540,000	11.8
	31,000,000		2,400,000	960,000	

7.7 Concluding Remarks

The case studies developed in the previous section have been selected on the basis of (a) data availability and (b) the fact that the projects address critical issues in Cyprus today. They have been developed with a view of providing an example of the JESSICA Structure deployment and do not necessarily constitute recommendations for pilot projects, should the instrument be adopted. Other project opportunities for funding may arise within the next one to two years that may be deemed as more suitable or better investment opportunities for JESSICA.

There appear to be a number of opportunities for JESSICA to be used to stimulate the delivery of projects in Cyprus. JESSICA intervention is required as market failure conditions have been identified in terms of project delivery and in order to encourage private sector collaboration. Numerous other project ideas with a focus on urban regeneration and place-making activities have been pointed out during meetings with the four biggest municipalities, namely, Nicosia, Limassol, Larnaca and Paphos. However, due to time constraints and the fact that these ideas do not constitute well thought-of project concepts, not even at a premature state whereby some indicative figures could be presented, these ideas have not been included in the study.

The scope and timescale for the completion of this study is preventive for the undertaking of further detailed work to aid project identification. However, the results of this study outline a series of actions that can be explored by further work that can increase the number of potential projects and the level of detail available for them. Such recommended actions are to:

- Liaise with the various municipalities, who are the key players in the market for urban regeneration, to identify further project opportunities and provide the necessary assistance with the aim of aiding them in the development of ideas to articulated project proposals.
- Host a market briefing to inform the marketplace of JESSICA and stimulate potential projects.

8 Findings and Recommendations

8.1 Investment Activity

On the basis of meetings conducted over the course of this study with various players in the urban regeneration and infrastructure development sector, there appears to be a strong case for JESSICA deployment in Cyprus. This conclusion is based on a detailed review of emerging project proposals, the 'appetite' that emerged from key stakeholders and the manner in which investment opportunities are aligned with the ERDF programme.

The objective of the study was to identify whether JESSICA can add value by playing a role as a funding mechanism to finance projects aligned with the Cypriot development agenda and the ERDF programme. The results of the study can be summarised as follows:

- A wide range of project concepts has been identified that meet JESSICA requirements and have the potential to deliver against target outputs and outcomes. It has emerged that a sufficient potential of deal flow is present to justify further work.
- Some projects can be considered close to "investment ready propositions", but there is a role for JESSICA to support and influence their final development.
- The Government must take a decision as to how much of ERDF funds (ESF monies are also eligible) are directed to JESSICA. A review of the projects presented in this document by way of case studies indicates that an amount in the range of €20 million to €30 million would be appropriate as an initial JESSICA allocation.
- At an early stage of its existence, JESSICA can make a positive contribution in the area of project development providing the various public sector players with assistance in developing and refining their project ideas.
- A strong signal by the Government in the direction of JESSICA adoption is likely to accelerate development of suitable project concepts and generate additional propositions.
- Setting up of a Holding Fund is an option worth considering, even though it is not a requirement. Its establishment through the appointment of EIB as a Fund Manager will clearly add value to the process through an exchange of knowhow and expertise. Furthermore, it may provide the

Planning Bureau, as the Managing Authority, with the necessary time to establish the legal framework under which UDFs will operate, set up any proposed UDFs, and through a parallel process “educate” interested parties about JESSICA to help them develop their ideas into suitable project proposals.

- In deciding whether to set up a Holding Fund, cost is an important consideration. The key question that needs to be answered by the Planning Bureau is whether the costs related to the setting up of a Holding Fund as opposed to the benefits generated from this arrangement justify the decision to go ahead with one. Given the current market conditions, with low interest rates it is likely that interest income may not be sufficient to cover the costs of appointing the EIB as the Holding Fund Manager. Therefore, the question that needs to be addressed is whether the involvement of the EIB will add enough value to the implementation process to justify the cost of adopting a Holding Fund. Indeed, this cost may not be covered by the generated interest income and part of the invested funds may also be paid out as Holding Fund Manager fees, this however, is an unknown factor as details of the funding agreement are not known and are in fact out of the scope of this study.
- In the absence of a Holding Fund, and as an alternative course of action, the Planning Bureau may opt to proceed with the direct establishment of a UDF, which might result in a quicker delivery of JESSICA funding.
- A staged approach to the implementation JESSICA is potentially attractive. For example, such an approach could involve the setting up of a single UDF and initially investing only portion of the total funds allocated to JESSICA, enabling the Planning Bureau to; (a) build experience through a pilot operation; and (b) determine whether more UDFs are required. Having monitored the performance of the initial round of investments, a decision could then be taken on whether to establish further UDFs or to deploy the residual JESSICA monies into the existing UDF. It should be noted that if the decision to proceed with this is approach is taken, then it is advisable to also establish a Holding Fund that will manage funds until they are fully allocated to one or as many UDFs are eventually created.

8.2 Taking the Concept Forward

The following sequence of actions illustrates possible timelines for JESSICA implementation, with and without the Holding Fund being adopted.

8.2.1 With Holding Fund

- **July to October 2009** – Obtain necessary approvals from key stakeholders for the establishment of a JESSICA fund
- **September 2009** – Presentation of findings during workshop
- **October 2009** – Agreement on provisional JESSICA architecture and identification, including any refinements to the architecture coming out of the Legal study, of a suitable Holding Fund Manager
- **October 2009 to December 2009** – Conclude funding agreement with Holding Fund Manager
- **January 2010** – Set up Holding Fund and publicise its establishment within the economic development community and wider interested groups
- **February 2010** – Deposit ERDF into the Holding Fund
- **January 2010 to March 2010** – Set up an Investment Board with the aim to:
 - Oversee Holding Fund Activities
 - Initiate activities assisting public organisations with the refinement of project proposals
 - Direct Fund Manager towards the development and appraisal of new project investments
- **March 2010** – Set up of criteria for the establishment of a UDF and issue call for UDF proposals, as considered appropriate.
- **March 2010 to October 2010** – Holding Fund Manager to work with interested UDF parties to develop credible UDF proposals for formal submission to the Holding Fund. Selecting a preferred party during August or September 2010
- **October 2010** – Establish a UDF and make first project investments

8.2.2 Without Holding Fund

- **July to October 2009** – Obtain necessary approvals from key stakeholders for the establishment of a JESSICA fund
- **September 2009** – Presentation of findings during workshop
- **October 2009** – Agreement on provisional JESSICA architecture, including any refinements to the architecture coming out of the Legal study and set up of a project team in the Planning Bureau to oversee the set up of UDFs
- **October to December 2009** – Undertake detailed procurement planning including drafting call for tenders

- **January to May 2010** – Work with potential UDF suppliers to refine proposals and advance project detail with stakeholders as required
- **May 2010 to August 2010**– Select preferred UDF operative and conclude formal negotiations
- **September 2010** – Setup UDF and make first project investments