JESSICA

JOINT EUROPEAN SUPPORT FOR SUSTAINABLE INVESTMENT IN CITY AREAS

Implementing JESSICA in Italy
Follow-up study

(English Translation of Synthesis Report)

EVALUATION STUDY

January 2009

This document has been produced with the financial assistance of the European Union. The views expressed herein can in no way be taken to reflect the official opinion of the European Union.

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Contract CC2402/PO22 294
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Please note: A more detailed working document in Italian language (referred to in the footnotes) is also available for public distribution.

EXECUTIVE SUMMARY

The work under the contract in question was performed during the period from 17 September 2007 to 31 July 2008, which was subsequently extended to 31 December 2008.

This report summarises the main features of the work performed. For individual analyses and assessments, please refer to the documentation previously sent to the JESSICA Task Force.

The work was carried out in response to requests for further information along lines indicated and suggested by the JESSICA Task Force (in particular by Dr. Leanza and Dr. Carbonaro). For ease of presentation, the documentation is summarised under the following three headings, irrespective of the chronological order of the documents:

1) Summary of seminars, conferences and reports on the launch of JESSICA in Italy;
2) Summary of national legislation and procedures for integrated territorial plans;
3) Project contributions to specific initiatives.

1. Seminars, conferences and reports on the launch of JESSICA in Italy

The extremely strong commitment of the Task Force to the launch of the JESSICA initiative in Italy had many aspects. Numerous documents were produced, concerning in particular:

- the *national situation* as regards regional and local development policies;
- the presentation of *JESSICA's potential* to regional authorities, including the contribution from Cassa Depositi e Prestiti (Deposits and Loans Fund), ministries and national research centres.

1.1. The national situation

The national situation as regards regional and local development policies is described at length in the final report of the study commissioned by the EIB and Ecosfera S.p.A/Sercam s.r.l. "JESSICA: analisi valutativa preliminare – caso studio italiano". A critical analysis of that study was carried out with a view to updating it and highlighting the most salient guidelines for the introduction of the JESSICA programme in Italy.

The Ecosfera/Sercam Report consists of three chapters:[1]

1. Description of the national context
2. Case studies
3. Introduction of the JESSICA mechanisms in Italy.

Section 1.1 of the first chapter presents an efficient summary of the complex institutional and legislative framework for "territorial governance". It describes in particular:

- developments in the legislation at national and regional levels;
- the main experiences with integrated urban planning;
- the special instruments for financing urban renewal projects (società di trasformazione urbana (urban renewal companies, STUs), project financing).

The following are the main conclusions to emerge from the survey of legislation and operations:

- even in Southern Italy, adequate expertise is widely available for defining "integrated projects" as a result of the experience gained under earlier Community and national programmes, such as URBAN and PRUSST (programmi di riqualificazione urbana e di sviluppo sostenibile del territorio, programmes for urban regeneration and sustainable regional development);
- STUs, which in fact have been established in only a small number of cases, are clearly facing operational difficulties, whereas the use of project financing is being extended to multi-faceted and complex urban regeneration projects, thus

[1] See "Sintesi del Rapporto Ecosfera/Sercam" of 20/03/2008 and "Considerazioni sul rapporto Ecosfera/Sercam" of 26/03/2008.

going beyond its traditional use for individual schemes such as car parks, university residences, etc.

Section 1.2 of the first chapter sets out the financial frame of reference for implementing integrated urban development programmes. In particular, it describes the operational aspects relating to:

- constraints on local authority borrowing imposed by the budget and the "stability pact";
- permitted forms of borrowing;
- "sectoral" concessions introduced under various Finance Laws, in particular the FAS (Fondo Unico per le Aree Sottoutilizzate, single fund for underutilised areas);
- financial instruments for extracting maximum value from state real-estate assets (securitisation, real-estate funds with in-kind contributions of property);
- Fondo Rotativo per la Progettualità (FRP, revolving project development fund), managed by Cassa Depositi e Prestiti;
- regional revolving funds and regional development agencies.

The main conclusions of Section 1.2 can be summarised as follows:

- the increasing scarcity of public-sector financial resources for investment is driving local authorities to seek new forms of cooperation with the private sector, especially in the Centre and North in view of the reduced availability of resources for the Structural Fund programming period 2007-2013;
- the launch of PPPs in large-scale programmes calls for a new approach, both by the public authorities (which are currently ill-equipped to negotiate where initiatives offering different returns exist within the same programme) and by the private sector (traditionally represented by construction firms interested in the gain in land value generated by changes in land use and not in the development and management of new projects in the advanced services sector);
- the regional development agencies, which were formed to coordinate development initiatives proposed at local level by providing a higher strategic vision, have proved a disappointment. Their limited operational and economic autonomy has severely limited their ability to innovate and to build consensus on long-term objectives.

Finally, the first chapter contains:

- an effective reminder of the role of cities in the National Strategic Reference Framework (NSRF) and in the Operational Programmes of the new Community programming period 2007-2013 (the cities drive the development of international competitiveness in advanced services – knowledge-based economy);
- a summary of trends in the Italian real-estate market, not least in view of the increasing number of residents (including temporary residents) who demand services of a high standard (in transportation, health, culture, social relationships, leisure, etc.).

In conclusion, the first chapter may be used, in a slightly simplified form, as the legislative data base (information manual) for public and private sector operators involved in implementing JESSICA projects.

The second chapter and part of the third illustrate three case studies in order to assess the methods used in a JESSICA project: the regeneration of the city of Terni, the regeneration of the disused industrial areas in "Napoli Est", and the strategic development of Benevento. Particular attention is paid to the following aspects:

- consistency of each integrated project with strategic planning at regional and national levels;
- the ability to have an impact on the area in order to stimulate a lasting process of development;
- the existence of a mix of projects that will ensure an overall return "acceptable" to private investors;
- the willingness on the part of the public sector to take account of a JESSICA project in that it considers it compatible a priori with its own decisions.

The second chapter should be reviewed in the light of the experience and contacts that the JESSICA Task Force has made since it was written in order to produce appropriate documentation for describing JESSICA projects in a repeatable form (operations handbook) as a means of supporting projects to be launched by regional and local authorities.

The third chapter provides further information on the three case studies mentioned above and also develops the following topics:

- the introduction of JESSICA and the future availability of public investment for the urban sector;
- local authorities and the management of complex financial mechanisms;
- the urban setting and the possible scenarios for implementing JESSICA.

The main conclusions reached in the third chapter may be summarised as follows:

- the Community and national resources available for urban policies during the programming period 2007-2013 are very large (totalling about EUR 100 billion), but are intended mainly for the South, but it has yet to be demonstrated that the Southern regions have the ability to promote large urban regeneration and development operations;
- the paucity of public resources for the urban sector in the Centre and North will make it necessary to use complex mechanisms to raise private finance, especially in view of the changes occurring in the real-estate market and the existence of large former industrial areas to be rezoned. However, the public authorities are still taking few initiatives to involve the private sector in complex projects and to experiment with innovative means of achieving sustainable development (except in the large cities, which have ad hoc corporate instruments at their disposal).

The issues brought to light in the third chapter raise topics to be addressed in the JESSICA evaluation studies for the Italian regions, including:

- *effective management of a partnership for JESSICA (regional and local authorities, other public bodies: roles, delegated powers);*
- *forms of public-private partnership that will meet the needs of a UDF geared to offer venture capital for PPP projects;*
- *key role and powers of a UDF (selection, evaluation and management of financial contributions to PPPs, as components of integrated plans for sustainable urban development);*
- *key role and powers of a Holding Fund (strategic support for regions – managing authority, relations with institutional investors, supervision and reporting to the European Union);*
- *transparent and effective PR for the launch of JESSICA projects.*

1.2. The potential of JESSICA

The JESSICA Task Force has held or attended a large number of seminars and conferences to *present the initiative's potential*.[2]

As a result of the work that has been carried out, it has been possible to present a number of synoptic themes, as set out below.

<u>The Community approach</u>

Sustainable urban development is one of the priority objectives of the new Structural Fund programming period (2007-2013).
Previous positive experience, from the management of the URBAN I and URBAN II initiatives for managing complex territorial situations, also flowed into a parallel programme: URBACT. The cities involved in a pilot project were networked together in order to identify effective local policies and strategies for sustainable development and hence to spread "best practice".
The extensive know-how that was accumulated provided a solid basis for defining an approach agreed among the Member States for the creation of "sustainable communities". For example, the Bristol Accord of December 2005 highlights the key prerequisites for an effective urban development policy and the characteristics of sustainable communities.[3]
In that context, the European Commission (DG Regional Policy), the EIB and the Council of Europe Development Bank signed a Memorandum of Understanding on 30 May 2006 defining a coordinated approach to promote and support integrated plans for sustainable urban development within the framework of the programming period 2007-2013. That coordinated approach matches the JESSICA technical assistance initiative, to be developed where possible in conjunction with the other Community

[2] See various reports on conferences and seminars for the launch phase of JESSICA (27/09/2007, 04/10/2007, 16/10/2007, 23/10/2007, 08/11/2007) for an analysis of reports presented by the EIB, Cassa Depositi e Prestiti, the Ministry of Infrastructure, the State Property Agency and SINLOC (Sistema Iniziative Locali S.p.A.).

[3] In brief, sustainable communities should be active, inclusive and safe; well run; environmentally sensitive; well designed and built; well connected; thriving; well served; and fair.

initiatives JEREMIE (Joint European Resources for Micro to Medium Enterprises) and JASPERS (Joint Assistance to Support Projects in European Regions).
The role of the JESSICA initiative should be seen in the context of the new Community regulations on management of the Structural Funds (programming period 2007-2013), which provide that the managing authorities may invest part of the resources of regional operational programmes in new financial engineering instruments aimed at sustainable urban development (UDFs and Holding Funds, the latter being intended as the means of coordinating UDFs).

JESSICA's mission

Population is concentrating increasingly in "competitive" urban areas, which generate the greater part of GDP and at the same time are undergoing profound change owing to demographic trends, globalisation of the economy and an accentuation of migratory flows.
These changes – which are rapid, extremely complex and difficult to control – are affecting the appearance and soul of cities and may lead to economic and social decline.
For that reason, a long-term view and a concerted Community approach, involving innovative and effective methods and financial instruments, must be adopted for pursuing the objective of "sustainable urban development".

JESSICA aims to bring together high-level experience, institutional expertise and public and private financial resources in order to help create and manage the new financial engineering instruments in the shape of UDFs and Holding Funds.
JESSICA's mission – "to assist European cities in defining long-term, sustainable and viable patterns of development through investment activity financed via revolving instruments"[4] – sets out from recognition of the various dimensions of the urban setting (environmental, social, institutional, economic, governmental) and of the evolutionary processes involved. The aim of JESSICA is therefore to offer innovative methods for carrying out strategic analysis and assessing integrated projects. It attempts to build on the methods already acquired (for example, in the latest generation of integrated regional projects) in order to move towards a multi-dimensional and dynamic view in which the engine of sustainable development is the interaction between physical attainments (containers) and human and entrepreneurial capital (content). The urban area is therefore carried forward towards the "sustainable community" able to provide a structural response to the challenges of international competitiveness and internal cohesion.

JESSICA aims to direct these innovative methods in such a way as to reconcile the needs of public and private investors, particularly as regards the repayable nature of the financial products used and the remuneration of venture capital.
In short, JESSICA helps define the context in which financial engineering instruments for sustainable urban development are used and the operational methods employed.

[4] Eugenio Leanza, "Assessing integrated projects in European urban areas", August 2007.

Strategic analysis

Assessment of the effects of an integrated project on the setting into which it is introduced (measure of additionality) is particularly complicated in the case of urban areas undergoing rapid demographic change. Traditional methods are subject to a number of limitations and are not entirely adequate for assessing an area's capacity to generate the necessary resources to ensure sustainability of the regeneration process.

The integrated model proposed by the EIB examines the various components of the capital employed in urban areas (environment, structures, the human and intangible element, finance) and assesses its potential. It therefore considers the potential positive and negative variations both in the base scenario and in the situation created by implementation of the project. The identified net increase in urban wealth is adjusted for sustainability costs (including the cost of environmental sustainability), costs/benefits resulting from interaction with the external environment (e.g. public sector contributions, transfer payments and taxes, migration of residents, tourism) and variations in asset values.

The involvement of both public and private investors in urban restructuring projects requires considerable effort to harmonise the various interests, reduce information asymmetry and accurately assess both systemic and specific aspects of risk. To that end, a study has been launched to define a template applicable to sustainable urban development.[5]

The strategic analysis must be extended to encompass the dynamics of migratory flows (as in some cases shown by provincial monitoring units)[6] and the expansion or contraction of businesses in the area (represented unsystematically by university research).[7]

Financial engineering instruments

UDFs are generally established by partnerships between public institutions and private investors to finance integrated projects for sustainable development; the partnerships are formed by participation in the capital of the UDF and/or by special agreements. Such funds operate in the United Kingdom, for example.[8]

They are defined as financial engineering instruments providing repayable finance, potentially in the form of guarantees, to operational partnerships between the public and private sector and to other projects included in an integrated plan for sustainable urban development. The projects may receive public sector grants to meet expenditure not covered by private sector financing. The fund may repay and remunerate public and private investors in different ways.

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[5] "A Framework for the Evaluation of Local Competitiveness and Sustainability", SINLOC, 20.09.2007.

[6] For example, Province of Ferrara, employment services, immigration monitoring unit.

[7] For example, "Dinamiche innovative, conoscenza e performance nelle imprese della provincia di Ferrara", research report by the Centro di Ricerca sulla Economia dell'Innovazione e della Conoscenza (CREIC), University of Ferrara, Province of Ferrara.

[8] "English experience of Urban Development Funds" – Miles Beale, Expert Working Group, Luxembourg, 21.09.2007.

The managing authorities may channel to the UDF resources provided for sustainable urban development under operational programmes (OPs). Such resources are used as advances and are invested by the UDF in a repayable form (not as grants) on the basis of a specific loan agreement with the managing authority. Repayments revert to the managing authority for investment in sustainable urban development projects.
The managing authorities may also channel to the UDF the resources provided under OPs via a Holding Fund, which may be managed by the EIB with separate accounting. Where resources from OPs are used, the co-financing partners in the UDF submit a detailed business plan, which is assessed and monitored by the Member State or the managing authority.

In conclusion, the new Urban Development Funds combine public sector financial resources and procedures (including Community funds and procedures in the case of resources from the Structural Funds) with financial resources and procedures based on market principles. Such procedures permeate the entire management of the funds as regards the mechanisms for recovering financial investments.

2. Summary of national regulations and procedures for area-based integrated projects

The introduction of JESSICA calls for detailed knowledge of existing procedures in order to identify the most suitable approach, where possible avoiding complex innovation that would require further trials. Work has focused on achieving an in-depth knowledge of the status of procedures for carrying out feasibility studies in general and sustainable urban development projects in particular, in the latter case highlighting the original aspects required by JESSICA.

2.1. Feasibility studies

The "feasibility study" develops a project idea to the point of defining a specific plan of action. By comparing various alternatives and methods of implementation and management, it provides structured information as the basis for a reasoned decision by the political and administrative authorities.[9]
Feasibility studies (FSs) are compulsory for large public investments and lay the ground work for the subsequent planning and implementation stages.

Legislative sources

Feasibility studies are governed by numerous items of legislation, ranging from Law 144/1999 (Measures regarding investment) to Legislative Decree 163/2006 (Public Procurement Code).
Feasibility studies are therefore an integral part of the process of public investment, and are either paid for exclusively out of public funds or are co-financed by private investors.

[9] NUVAL (Nuclei di valutazione degli investimenti), "Le finalità generali di uno Studio di Fattibilità", http://www.retenuvv.it.

They are certified by the Nuclei Regionali di Valutazione e Controllo degli Investimenti Pubblici (NUVV, Regional Public Investment Assessment and Verification Units).

Standard methods and models

The methods and templates for drafting (and subsequently certifying) feasibility studies are formulated and distributed (in some instances through seminars held jointly with FORMEZ) by the Unità di Valutazione degli Investimenti Pubblici (UVAL, Public Investment Assessment Unit, at the Ministry of Economic Development) and by the NUVV network.
In particular, the document "Analisi finanziaria e grandi opere: lo schema tipo di Piano economico-finanziario per l'attuazione della Legge Obiettivo" (Financial analysis and major works: the standard layout of economic and financial plans for implementing the Framework Law), published in *Materiali UVAL*, No 11, December 2006, describes the main methodological choices made and sets out the contents of the spreadsheets.
For public works in general, a "Guida NUVAL per gli studi di fattibilità"[10] (NUVAL guide for feasibility studies) is available that illustrates the objectives, minimum requirements, thematic areas and approach for all the necessary analyses. For a self-evaluation of the quality of the FSs carried out, refer to the "Guida per la certificazione degli SdF delle opere pubbliche da parte dei Nuclei regionali di valutazione e verifica degli investimenti pubblici (NUVV)"[11] (guide for the certification of FSs of public works projects by the Regional Public Investment Assessment and Verification Units).

To summarise, FSs for public works projects comprise three chapters and annexes:

- preparatory analysis and comparison of various alternative projects and management methods;
- specific investigations of technical feasibility, environmental compatibility, financial sustainability, economic and social benefits;
- analysis of feasibility under existing laws and procedures and analysis of risk and sensitivity;
- annexes (Gantt diagrams, tables for financial analysis, tables for economic and social analysis).

The FSs for projects to be implemented by PPPs usually entail the following areas of investigation:[12]

- placing of the project in a clear territorial and sectoral context, with correctly identifiable demand and no constraints on private sector participation;
- check on the availability of adequate professional and managerial skills in the private sector, to be involved while complying with competition rules;
- identification of the risks and the criteria for their optimum distribution;
- financial evaluation using discounted cash flow analysis;

[10] See http://db.formez.it/GuideUtili.nsf/StudiFattibilità.
[11] Adopted by the Conference of the Presidents of the Regions and Autonomous Provinces on 8 March 2001 and updated on 12 June 2003.
[12] "Partenariati Pubblico-Privati per gli investimenti pubblici", Prof. Ettore Cinque, Seconda Università di Napoli, 6 March 2007, Formez-Rete NUVV.

- criteria for risk management and the conclusion of contractual agreements (security package).

The structure of FSs for Integrated Territorial Programmes (Programmi Integrati Territoriali, PITs) and the criteria for assessing them are outlined in regional (co-)financing notices issued by decision of the Regional Council.[13] The following topics must be covered:

- description of the socio-economic objectives of local development, their relevance and strategic content;
- analysis of the strengths and weaknesses of the local system in question (SWOT analysis);
- consistency with regional and national sectoral plans and agreements;
- specification of the expected impact on economic development and the social and environmental improvement with respect to the current situation;
- level of programme integration (parties, financing, actions, etc.), avoiding fragmentation of effort;
- proportion of private co-financing.

An FS as described above, possibly in a simplified form, is required for each public works project included in the PIT.

Given the considerable know-how available, as recalled briefly above, the structure of a FS for a JESSICA project can be similar to that for PITs (for which the managing authorities have the relevant methodology), provided that ad hoc studies are carried out into:

- social sustainability, taking account of demographic trends and migratory flows, both with and without the impact of the project;
- financial sustainability, taking account of the type of finance (loans, guarantees and other repayable forms);
- risk analysis, with particular regard to the distinction between systemic risks (area-linked) and project risks (which can be allocated optimally between the public and private sectors on the basis of their respective expertise);
- confirmation of high priority in territorial policy and governance;
- confirmation of the involvement of parties and activities capable of generating structural cohesion, innovation and development.

2.2. Feasibility studies for JESSICA Integrated Plans

The feasibility study for a JESSICA Integrated Plan may be initiated through a competitive procedure, in the form of a competition of ideas or as a study to be carried out on the basis of preliminary specifications. The notice of competition must indicate the strategic guidelines, objectives and configuration of the study and, where possible, the means of exploiting the expected results.
The expertise acquired by or otherwise available to the authorities responsible for territorial governance is very extensive (as mentioned in point 2.1) and in many cases

[13] See for example the regional notice "Programmi territoriali integrati per gli anni 2006-2007", *Bollettino Ufficiale della Regione Piemonte*, 4 January 2007.

may be considered adequate.[14] Now it is a question of using that expertise to produce specific documentation for the introduction of JESSICA.

The most obvious operational aspect has to do with the "revolving" nature of financing under JESSICA. This feature, which will probably be predominant after the current programming period 2007-2013, suggests that greater attention should be paid to ways of involving the private sector. To that end, the following modules propose more detailed work on methodology that should be carried out using established expertise and experience.

From the point of view of general methodological choices, the more detailed studies in question should:

- a) contain clear elements of self-evaluation, in the sense of revealing explicitly the reasons for supporting a positive appraisal of the validity of the FS;
- b) describe the procedure deemed most effective for launching the subsequent implementation stage of the programme.

The objective is not simply to follow a transparent and consensual course aimed at achieving approval of the FS but also and above all to generate a vivid and dynamic document capable of further refinement during implementation of the project and its social, environmental and economic exploitation.

"SWOT ANALYSIS" MODULE

SWOT analysis is a well-known strategic planning instrument that looks at the internal strengths and weaknesses of a project and the external opportunities and threats. Developed in the sixties as a strategic marketing tool for companies, SWOT analysis also came to be used from the eighties onwards as an aid to public decision-making in local development scenarios.

The quadrants of the SWOT matrix show the different possible strategic directions:

	Strengths S	Weaknesses W
Opportunities O	Actions aimed at exploiting strengths to grasp opportunities	Actions aimed at reducing weaknesses to grasp opportunities
Threats T	Actions aimed at exploiting strengths to counter threats	Actions aimed at preventing threats from accentuating weaknesses

In an integrated programme of sustainable urban development SWOT analysis should be applied to the various aspects of the programme's sustainability (social and demographic, environmental, urban planning, economic, financial, infrastructure, etc.), in order to construct scenarios and trends for each aspect. Possible measures/actions are then identified, by building on strengths, seeking to reduce

[14] Strategic analyses of the sustainable development of an area are available on the websites of many cities and provinces. See, for example, "Prato Agenda – Il piano strategico: uno strumento inclusivo per lo sviluppo di Prato"; "Piano strategico dei Comuni del territorio Copparese"; and PITs and related feasibility studies for various city and provincial authorities in response to regional notices of competition.

weaknesses, grasping opportunities and neutralising threats. The decisions on the measures making up the programme are justified on the basis of the scale of their effects on the context and the overall feasibility of implementing them.[15] It may also be useful to complement the SWOT analysis by assessing the attractiveness that the integrated programme may have, once implemented, for existing or potential local actors (residents, local economic agents, external entrepreneurs, investors, universities and training centres, etc.). Finally, the portrayal of the various types of risk and the measures/actions to be taken to mitigate their effects ("critical points and suggested solutions") is a very useful frame of reference for investors' decision-making.
It is a complex process, which may be constantly monitored to assess the completeness of the study and the validity of the strategic findings by using contributions from opinion leaders who are expert in the various topics and have a deep and specific knowledge of the area.[16]

"ECONOMIC ANALYSIS" MODULE

As far as the measures in the integrated programme are concerned, economic analysis consists in analysing the cost of investment and management of the works and in analysing revenues. Costs and income are strongly affected by decisions as to project policy and the means of implementation and management.
The project configuration must comply with the guidelines laid down in overarching strategic plans (regional, large area, metropolitan area). The guidelines, which are dictated or approved by the authorities, must be contained in the notice of competition for the FS and clearly stated in the FS itself. There are "project benchmarks" for each type of work (e.g. transport infrastructure and sustainable mobility, land reclamation, residential and services premises, projects to regenerate and redeploy historic town centres or disused premises, plant to save energy and use renewable energy sources, etc.).[17] Constructed in accordance with the relevant project benchmarks, the estimates of costs and income may contain appropriate elements for performing a consistency check on the basis of a comparison with other similar schemes. In fact, parameters (e.g. relating to surface area or volume) or block assessments according to market trends are available for estimating the cost of implementing each type of project. Information based on past experience is also available as regards the management costs (maintenance and miscellaneous expenses) for various types of project.
The accuracy of the economic assessment is affected by the stage reached in the approval and administrative process of each project.[18] Hence, the economic evaluation must indicate the point reached in the procedure, the critical issues to be overcome and the time considered necessary for implementation.
It is obviously appropriate to analyse the project's sensitivity to the more important variables, which affect cost assessments.

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[15] The phased method of SWOT analysis has also been tried for small municipalities, such as Acri in the Province of Cosenza with 21,000 inhabitants; see "Programma di riqualificazione del centro storico con risorse del POR Calabria 2000-2006".
[16] A useful point of reference is the site www.siproc.unioncamere.it on the IT system for chamber of commerce projects. (accessed January 2009)
[17] See for example Scheda 15 "Elementi per un documento di Indirizzo per il Piano strategico della Città di Prato", in Contributo dell'Ordine degli Architetti P.P. della Provincia di Prato.
[18] For example, the definition of the cost of a project is precise when it is the result of the award of a contract at "turnkey price"; it is far less precise when the environmental impact assessment has yet to be carried out.

The management of projects likely to generate operating income is portrayed in the income statement, drawn up as at the time of launch and once the project is fully operational, and by an assessment of the time needed to reach break-even point.
The value of works to be sold is determined by market trends, with prudent adjustments being applied to take account of the period between production of the estimate and the placing of the assets on the market.

"INVOLVEMENT OF ECONOMIC AGENTS AND STAKEHOLDERS" MODULE

The basic means of communication with and between the parties involved in implementation of the integrated project is the Master Plan, which describes the objectives and illustrates them with summary tables and ground plans. It defines the powers, roles, responsibilities and actions of the various actors in decision-making and implementation. Although the Master Plan must relate to local authority planning instruments (regional, provincial and municipal), in contrast to these it is a "voluntary planning" instrument, and hence is not subject to specific adoption/approval procedures. However, it must be part of a process aimed at obtaining the consensus and active involvement of the community concerned.

As regards content, the Master Plan builds on established local identities (historical, cultural, relational) to establish new urban-planning arrangements by issuing notices for "a competition of ideas" or "competitive dialogue" procedures.[19]
The project guidelines favour new and balanced spaces and functions with differing but coordinated uses (residential, advanced services, centres of excellence, public services, environmental, cultural and touristic usage, etc.). The economic and social effects of the new arrangements are prefigured by drawing comparisons with international experience.

The cultural frame of reference is designed to achieve the maximum level of communication and cooperation between operators (governmental authorities for the area, entrepreneurs, financiers, etc.) and stakeholders (inhabitants, direct and indirect employees, residents and commuters, students and teachers, tourists and participants in fairs and exhibitions, etc.). Achieving such cooperation in practice requires the creation of a network of relationships, using electronic media where necessary, the nodes of which consist of centres of excellence (sources of know-how, universities, research and training centres), centres providing advanced services (for example, for quality certification, the internationalisation of firms), facilities for welfare provision, and local administrative and governmental offices.

With content of this kind, the Master Plan forms consensus among operators and stakeholders about objectives and procedures, and at the same time facilitates the creation of a platform to attract entrepreneurs in the advanced services sector (for

[19] Article 58 of Legislative Decree 163/2006 (the Public Procurement Code) provides for that procedure to apply where, in view of the complexity of the possible measures, the commissioning body is unable to identify and quantify its own needs and to ascertain the functional, technical, managerial and financial characteristics of sustainability of the most appropriate measures to meet those needs, which are the subject of the study.

example, in the knowledge-based economy)[20] who intend to set up in structurally competitive urban areas.

In short, the Master Plan represents a bridge between the various islands of sustainable development in the area, using methods already used successfully for the development of small and medium-sized enterprises (SMEs) grouped into "districts" and "networks".
A desirable and achievable qualitative step-change, with the aim of harnessing public and private interests to achieve sustainable development.

"ENVIRONMENTAL SUSTAINABILITY" MODULE

Environmental sustainability acquired a particularly prominent role in the context of Integrated Plans even under the previous Community Support Framework 2000-2006. There is provision not only for ex ante evaluations but also for intermediate and ex post evaluations. In order to implement the principle of sustainability and encourage integration of the environmental dimension in all the fields in which the Structural Funds operate, regional environmental authorities have been created, which are linked to the managing authorities.

The environmental authority is called upon to express a compulsory (but non-binding) opinion on the environmental sustainability of the measures, in which it certifies that they meet environmental protection requirements and comply with relevant Community, national and regional legislation. The environmental authority operates in accordance with procedures and methods laid down by the Coordinating Committee for the Regional Operational Programme. The assessment usually consists of a preliminary opinion, accompanied by a request for further information, and a final opinion highlighting critical environmental aspects in the area in question, the action to be taken to prevent implementation of the measures from having a potentially harmful impact, and the project solutions aimed at reversing environmental degradation.[21]

It is interesting to emphasise that the methods applied by the environmental authority provide not only for examination of the "strategic orientation" documentation for the Integrated Plan (for example, regional provincial or local strategic programme), but also for the use of local IT systems and related data bases describing the physical characteristics of the area (e.g. water basin; existence of areas of outstanding natural importance such as nature parks, sites of Community importance; special protection areas; existence of contaminated and polluted sites, quarries, etc.).
The main guidelines consist of recognition of the presence of (or the recommendation to adopt) project solutions capable of ensuring and promoting:

- water conservation,
- energy saving and the use of renewable resources,

[20] By way of example, the Indo-Italian Knowledge Management Centres being set up in various regions, which aim to foster cooperation in both trade and research between Indian and Italian firms in sectors where advanced expertise is the most important factor of development (innovative biotechnology, pharmaceuticals, nanotechnology, space, software, etc.).
[21] See in particular Antonio Risi, "Progettazione Integrata e Sostenibilità Ambientale", POR Campania 2000-2006.

- the adoption of standardised Environmental Management Systems (EMS, ISO standard 14001),
- the introduction of training modules incorporating environmental sustainability.

Research into the complex issues of environmental sustainability concentrates on the "bimodular" representation of the area (socio-economic and environmental elements and the relationship between them) and on defining indicators for representing the environmental dynamics[22] of local systems.

The OECD (Organisation for Economic Cooperation and Development) has made a valuable contribution to the selection and validation of environmental sustainability indicators, partly with reference to globalisation and corporate social responsibility.[23] In general, the indicators must meet the basic requirements of relevance, analytical consistency and measurability. The system of indicators for a strategic planning process must be the result of shared decisions.

Among the main national networks for environmental governance, the following deserve to be mentioned:
- SINAnet – Sistema Informativo Nazionale Ambientale (National Environmental Information System), launched in 1988 by the Ministry of the Environment and managed by the Agenzia Nazionale per l'Ambiente (APAT);[24]
- OCS – Osservatorio Città Sostenibili (Sustainable Cities Monitoring Unit), an interdepartmental network of the Politecnico and University of Turin for research into territorial governance and the governance of urban and territorial systems, with particular emphasis on mobility and transport, the protection of environmental resources and the countryside.[25]

"URBAN ENTREPRENEURSHIP" MODULE

It is essential for new entrepreneurial projects, including non-profit initiatives, to be implanted in the urban fabric in order to:
- project the economic sustainability of regeneration investment into the medium and long term;
- identify concrete opportunities for financing during the implementation and subsequent management of the investments until they reach break-even.

The entrepreneurial projects most frequently encountered in the urban environment fall into the following categories:
- activities induced by the presence of centres of excellence (urban poles, hub and spoke development);
- services for business and local authorities, with interconnected provision centres (networked services);
- social solidarity services, non-profit sector;

[22] IRES Piemonte "Sistemi locali territoriali e sostenibilità ambientale" 177/2003, M. Bagliani, F. Ferlaino.
[23] See the websites of the OECD, the Ministry for Foreign Affairs, the Ministry of Economic Development and the Ministry of the Environment.
[24] http://www.sinanet.apat.it
[25] http://www.ocs.polito.it

- projects to enhance the historic, artistic and cultural heritage and to provide extensive and integrated tourist services.

The presence of *centres of excellence* (such as universities, research and higher education centres, scientific hospital centres and treatment institutes, offices of national agencies, etc.) encourages the development of induced activities, often though joint ventures and/or public-private partnerships. Examples are the formation of high-tech firms as spin-offs from university research, testing and certification companies or service centres downstream from specialised services and advanced training for SMEs.

The provision of *services for SMEs and local public authorities* is generally organised on a network basis and covers highly diverse sectors, ranging from start-up assistance for innovative firms to the outsourcing of after-sales and customer satisfaction services, from energy management to environmental improvement, and from strategic analysis of local development to local marketing.

The following national and Community networks deserve to be mentioned:

- the BIC network (Business Innovation Centres, incubators and regional centres for promoting entrepreneurship, start-up assistance, support for local partnerships, provision of integrated services for local competitiveness). There are around 30 Italian BICs, which are part of the extensive European EBN network (European Business & Innovation Centre Network);
- the AIDA network (Associazione Italiana delle Agenzie di Sviluppo Locale e Marketing Territoriale), which groups together 24 development agencies, including Agenzia di Sviluppo Milano Metropoli; BIC Lazio S.p.A.; Crotone Sviluppo S.C.p.A.; Risorse-R.P.R. S.p.A.; TESS Costa del Vesuvio S.p.A.; and Zona Ovest di Torino S.r.l.;
- the APSTI network (Associazione Parchi Scientifici e Tecnologici Italiani), which links up 31 science and technology parks, including AREA Science Park in Trieste, Friuli Innovazione, PST Galileo-Pisa, Bioindustry Park del Canavese, PST Liguria, Tecnomarche, Umbria Innovazione, Tecnopolo Tiburtino e Castelromano, Technapoli, Tecnopolis di Bari and PST Sicilia);
- the AISLO network (Associazione Italiana Incontri e Studi sullo Sviluppo Locale), which, together with the AISLO workshops, brings academics from a variety of disciplines into contact with public-sector decision-makers and the business world, involving them in developing new expertise and the capability to take action in the name of sustainable development;
- the network of regional centres that is being established for Indo-Italian cooperation in the knowledge-based economy and world trade, industrial investment and technology transfer in high-tech sectors.

The extensive *non-profit sector* comprises:[26]

- voluntary organisations (as defined in Articles 2 and 3 of Law 266/1991),
- social promotion associations,
- social cooperatives (as defined in Article 1 of Law 381/1991),

[26] See the ANCI document "Gli enti non profit più diffusi e le loro caratteristiche", at www.extra.anci.it/admin/evidenza/radEDEF1tmp.doc.

- foundations under civil law and banking foundations,
- non-governmental organisations (NGOs), of religious and secular origin,
- socially beneficial non-profit organisations (ONLUS),
- "social undertakings", governed by Legislative Decree 155/2006.

Projects to enhance the historic, artistic and cultural heritage may take many legal forms, including PPPs, depending on the objectives pursued, and they may, for example, be set up as service centres to promote the provision of integrated tourist services and to establish managerial and operational models for enterprises operating in the "cultural tourism" sector.

"FINANCIAL PLANNING" MODULE

The financial analysis of investments in the various schemes within an integrated project and the management thereof sets out from the consideration that some measures require public financing, others call for joint public and private financing (or even exclusively private funding under PPP agreements, with corresponding optimum distribution of risks) and yet others are private-sector schemes (such as residential and commercial premises) deliberately incorporated into the integrated project.

The Urban Development Fund acts as a catalyst for private financing and the use of repayable public financial resources by involving institutional investors and broadening the scope for PPP initiatives, according to the nature of each project.
Irrespective of the method of financing, investment must be recorded in the three-year programme and a definite plan for meeting the expenditure must be in place when the executive plan is approved (Article 200 of the TUEL (Consolidated Law on Regulations for Local Authorities)). Borrowing to finance investment is governed by TUEL Articles 203 (conditions), 204 (loans), 205 (bond issues) and 206 (delegation of payments to treasury offices to guarantee the service of loans/bonds).

The other forms of market finance permitted by legislation are project finance (under the Merloni Law, as subsequently amended), securitisation, and bank loans under Article 205a of the TUEL, introduced by Law 311/2004 (the Finance Law for 2005).

In order to finance investment under an integrated plan for sustainable urban development a UDF may:

- invest financial resources from institutional investors and the Structural Funds in repayable financial products (e.g. subscription of municipal bonds (buoni obbligazionari comunali, BOC), equity in PPPs and other schemes included in the integrated plan). The managing authority would be able to reinvest Structural Fund resources upon repayment; the municipality could benefit economically owing to the increased volume of private resources and optimisation of interest expenses;
- facilitate the municipality's access to ordinary borrowing on special terms, in that Cassa Depositi e Prestiti (by analogy with the provisions for local authority investment in associated form)[27] and the EIB could offer interest

[27] Reduction of 15 basis points (0.15%) in the rate set for mortgage loans.

rebates from the market rate for public works included in a JESSICA integrated plan;
- facilitate access to JEREMIE to support SMEs involved under the integrated plan.

2.3. Urban Development Fund (UDF): for sustainable development project guidelines

Schematically, the possible guidelines for the structure of a UDF in the framework outlined by current national legislation, with particular reference to economic and financial sustainability, relate to:
- definition of the frame of reference for the operations of a UDF;
- analysis of the constraints and flexibility provided for UDFs and Holding Funds under the Community Regulations for 2007-2013;
- analysis of initiatives that may offer operational leads.

2.3.1. Frame of reference for UDF operations

The reference scenario is subject to further interpretation at Community level, which should be completed during 2008. Nevertheless, several of its features, which may throw light on the way to structure a UDF, can already be discerned intuitively.

- *Key competences*. Market-related financing (revolving funds) calls for a level of detailed examination that is unusual in the implementation of PPPs for urban development. In particular, tools must be available to analyse, contain and monitor both the systemic and specific aspects of financial risk (systemic as it relates to the area and to social and demographic trends, and specific as regards risks associated with the effective implementation and management of the project). The establishment, management and liquidation of a UDF call for expertise similar to that required of the management companies of real-estate funds and closed-end mutual funds. Expertise in management and reporting in connection with Community Structural Funds is also required.
- *Actors in urban regeneration*. The main operators laid down in current regulations on the regeneration of the urban fabric are: urban renewal companies (STUs, companies with mixed capital governed by Legislative Decree 267/2000); companies with a similar remit but owned entirely by the public sector, such as Risorse-RpR S.p.A.; real-estate funds introduced by Law 86/1994 and governed by Legislative Decree 58/1998 (Testo Unico Finanze, TUF), subsequent Laws 410/2001 (ratifying Decree Law 351/2001) and 191/2004 (ratifying Decree Law 168/2004) and the related implementing regulations; Società di Investimento Immobiliari Quotate (SIIQs, listed real-estate investment companies), introduced in the Finance Law for 2007 (Article 1(119) to (141) of Law 296/2006).
- *Particularly complex projects.* The procedure laid down in the new Public Procurement Code (Legislative Decree 163/2006) for the planning, implementation and management of particularly complex projects is especially flexible, while nevertheless complying with the rules on competition: competitive dialogue. *In the context of this procedure there could be scope for*

partnership between a UDF and the contractor. Finally, under the procedure for relations with the "promoter" (Article 37a of Law 109/1994 (the Merloni Law), now Article 153 of Legislative Decree 163/2006), the promoter is permitted to form a project company in the form of a public limited company or a limited liability company, possibly on a consortium basis, to take over the concession awarded to the contractor (Article 156). The company may issue bonds (subject to prior approval by the supervisory authorities), even in excess of the limits in relation to own capital laid down in Article 2412 of the Civil Code, provided they are guaranteed by a mortgage. *A UDF may acquire shares or other equities in a project company or subscribe bonds issued by such a company*.

- *Unitary Value Enhancement Programmes (Programmi Unitari di Valorizzazione, PUVs).* PUVs are instruments for planning and rationalising public sector real-estate assets located in a particular area. The State Property Agency has launched the first local projects of this kind in conjunction with the Regions of Liguria and Latium and the municipalities of Bologna and Ferrara.[28] *The EIB and Cassa Depositi e Prestiti are examining the possibility of cooperating with the State Property Agency in this field*.

2.3.2. Constraints and flexibility for UDFs and Holding Funds.

The Community regulations for the Structural Fund programming period 2007-2013 provide particular opportunities for the new financial engineering instruments to support integrated plans for sustainable urban development (UDFs, possibly accredited and coordinated by a Holding Fund), laying down scope for flexibility and imposing constraints.

The urban development fund is a financial engineering instrument that invests in PPPs and other projects included in an "integrated plan for sustainable urban development". UDFs can receive Structural Fund resources contained in the 2007-2013 Operational Programmes. This method of allocating resources brings both economic and financial advantages: economic, in that the financial resources are transformed from grants into repayable investments, and financial, in that the sums are drawn earlier than grants and that interest accruing until disbursement to the final recipients goes to the UDF.

The use of Structural Fund resources entails compliance with Community rules on the admissibility of expenditure and on reporting and, in general, determines relations between the managing authority and co-financing partners or shareholders in the UDF and between the managing authority and the UDF's authorised representative. The agreement between the managing authority and co-financing partners takes the form of a business plan drawn up by the co-financing partners and evaluated by the managing authority, which subsequently also monitors its implementation. The content of such plans falls under the normal agreements between the shareholders in the fund, and its implementation is monitored by the meeting of shareholders.

[28] Urbanpromo, Venice, 23 November 2007: Report by the State Property Agency "Ripensare la città e i territori usando gli immobili pubblici".

A financing agreement between the managing authority and the UDF – a management company if the selected vehicle is an investment fund – sets the conditions for the transfer of the Operational Programmes' financial resources to the UDF. Under the agreement the management company's activities are geared towards achieving the strategic and economic objectives that have been set. The fund manager is usually offered a performance incentive; investors operating according to market principles may be given preference in the distribution of the expected returns.

If a number of UDFs are run via a Holding Fund, the financing agreement may, in addition, provide for financing urban development studies and evaluations of integrated plans for urban development; it also lays down rules for supervision, audit procedures and financing agreements between the Holding Fund and the UDFs.

When standard statutes for UDFs are being drafted, the requirements of Article 46 of Commission Regulation (EC) No 1828/2006 must also be taken into account. Where a compartment of a UDF is financed by Structural Funds, that compartment may not invest in other financial instruments such as venture capital funds, loan funds and guarantee funds, nor may it invest in projects already completed. A UDF may invest contributions from Structural Funds by means of equity, loans and guarantees. Article 51 of Regulation No 1828/2006 permits in-kind contributions of land and real estate.

2.3.3. Initiatives that may offer operational opportunities.

The Region of Campania has expressed its intention to contribute around EUR 100 million to the formation of a public-private real estate fund promoted by the Regional Councillor for Economic Activities to improve the productive infrastructure of the Region. The Region's contribution may not exceed 50% of the fund's capital. In order to encourage investment by the private sector, the Region has set a ceiling on the return on shares held by the public sector: any surplus will be used to remunerate private investors. The fund will acquire and improve premises for industrial, logistics, managerial and tourist uses. The management company will be chosen by public competition. The total investment is expected to exceed EUR 300 million.

Gruppo Norman recently launched two new real-estate funds aimed at institutional investors, to be managed by Ream SGR. The first fund, called Oberon, relates to tourism (hotel premises and tourist villages) and will operate in Italy, with a strong focus on Piedmont. Its capital will be between EUR 40 and 200 million. The second fund is an ethical fund to manage properties for social purposes. The Cassa di Risparmio di Torino Foundation plans to acquire a stake in Ream SGR and will monitor the ethical fund for the implementation of measures to enhance the area in which the Foundation operates.

Serenissima SGR (a company controlled by Real Estate Serenissima S.p.A., in which several banks operating in Lombardy and Veneto and Fin.OPI of the INTESA SANPAOLO Group are shareholders) is at an advanced stage in the formation of a real-estate fund called "Serenissima Logistica", which is expected to have capital of EUR 150 million and will operate in the integrated logistics sector. The fund, which

is reserved for qualified investors, will operate predominantly in Italy and euro-area countries.

The Strategic Plan of the City of Cuneo (Cuneo 2020, Progetti Asse 4 – Economia e Innovazione) provides for the formation of a local holding company with the aim of promoting the coordinated and sustainable development of the area by taking shareholdings in and coordinating the activities of other entities, such as a development agency (planning and services for innovation); a local real-estate fund (fund-raising by means of bond issues; coordination of real-estate policies within the scope of the holding company's strategies); a local holding company (coordination of lending to SMEs in the area); a local merchant bank (equity investment in major innovative projects, operating as an interface with its shareholder banks) (www.pianostrategico.cuneo.it).

In a Ministerial Decree of 18 October 2005 (*Gazzetta Ufficiale* No 274/2005), the Minister for Innovation and Technology, the Minister of the Economy and Finance and the Minister for Development and Cohesion decreed that the Department for Innovation and Technology could subscribe and dispose of units in closed-end investment funds promoted and managed by one or more asset management companies, for which purpose it will use up to EUR 100 million allocated by Decision No 20 of the Interministerial Committee for Economic Planning (CIPE) of 29 September 2004. *These funds are for the acquisition of shareholdings in SMEs as a counterpart to their investment programmes aimed at bringing process and product innovations using digital technology to underutilised areas in the South, including Abruzzo and Molise. The Department may also subscribe units in generalist funds whose statutes provide that a capital sum, for which separate accounts will be kept and which amounts to at least twice the sum subscribed by the Department, will be earmarked for investment in such enterprises* (Article 2(3)). The management company will be paid an incentive fee. A similar scheme has been promoted in Sicily (Presidential Decree of 18 May 2004 "Formation of a closed-end investment fund to promote business formation in Sicily"). These initiatives are mentioned here as examples of ways of offering incentives to SMEs located in areas covered by an Integrated Plan for sustainable urban development (potential synergy between UDFs and other financial instruments).

The first conclusion to emerge, even from initiatives that do not fall under the umbrella of JESSICA, is the importance and validity of a specialised financial entity that can operate, on the basis of market principles, in the vast and important field of urban regeneration.

3. Contributions on specific projects and topics

In response to suggestions from the Task Force, a number of specific topics and projects have been examined. Brief comments (on type of topic/project, documentation examined, proposals for further study from a JESSICA perspective) are reported below with regard to those judged to be most significant.

3.1. "Quartiere delle Piagge", Florence[29]

The Municipality of Florence has identified the Piagge quarter (on the western edge of the city, a prolongation of the Parco delle Cascine) as an area of considerable potential for the strategic development of Florence. Since the end of the nineties the district has been the subject of studies and programmes of measures using state and regional funds. In February 2005 the Regional Council decided to launch a large-scale project following a feasibility study by Nomisma; this would entail the formation of a mixed public-private company to which both public and private land and properties would be transferred.
Nomisma's economic and financial feasibility study (FS) analyses the investment required to establish the new enhancing functions (centre for music, hotel and restaurant premises, lido on the Arno, innovative residential premises) and concludes that it would be possible to recover the investment at a reasonable IRR following total disposal (i.e. the sale of *all* the premises that can be sold). This conclusion has encouraged the municipal authorities to initiate the subsequent stages in implementation of the project (formation of the mixed company, search for financial partners, executive planning, public tenders and management of the works).

The main assumptions underlying the FS are set out below, in each case accompanied by comments and/or possible interpretations from the perspective of JESSICA.

- The complexity of the project is such that a "strategic authority" ("regia strategica") is required to implement it. The FS proposes the formation of an ad hoc company, wholly owned by the public sector, with power to act as "operational authority for development of the project", a remit separate from activities relating to the construction and management of real estate. The Municipality would conclude service contracts appointing the company (an "in-house" provider in that it is publicly-owned) to manage the procedures for developing the area, including the public procurement procedures, on behalf of the Municipality. The reasons for this proposal are: the need to have a strategic coordination unit, agility, and avoidance of overburdening the technical departments of the Municipality. *It is proposed that alternative ways of achieving the same objectives be explored. For example, if one wished to stress the importance of relations with institutional investors, "strategic unitary management" could be entrusted to a Holding Fund if one were established, at regional level for example. On the other hand, if one wished to emphasise the importance of swift and efficient ongoing administrative decisions, "strategic unitary management" could be entrusted to an in-house manager responsible for the process, whose office should have an appropriate budget to purchase specialist consultancy services.*
- Implementation of the project will be entrusted to a mixed company, in which the private shareholders will be chosen by means of a public procedure. It could be an STU or other special-purpose company, provided it had mixed shareholding arrangements. Citing Tuscany Regional Law 1/2005, the FS suggests a single public competition to identify the private "developers" and to sell the public areas; it could possibly be carried out in two stages. *It is proposed to carry out a further project simulation, setting out from the current*

[29] See notes of 10/12/2007 (Report No 16) and 11/03/2008 (Report No 26).

ownership situation and owners' intentions, in order to define the best arrangements for the public competition for the launch and implementation of the project. It is necessary, in particular, to examine in greater detail the tax effects of the contribution of real-estate assets under various hypotheses and to determine the legal structure of the PPPs in order to minimise ancillary costs and make it viable for a UDF to make a repayable financial contribution.

- The total investment is estimated at EUR 181 million, on the basis of valuations set out analytically in the FS. Assuming that all the saleable premises are sold, revenue is estimated at EUR 212 million, taking account of property market trends. For the purposes of implementation, the project could reasonably be subdivided into four homogeneous sub-programmes, each containing an adequate mix of functions. The cost/revenue estimates for each of the sub-programmes is as follows (in millions of euros):

	P1	P2	P3	P4	Total
Revenue	83.4	27.7	50.7	50.3	212.1
Costs	64.9	35.4	33.2	47.6	181.1
Gross profit	18.5	-7.7	17.6	2.7	31.0

Given the differences in profitability between the sub-programmes, the FS considers it possible and desirable to offset between them, although it does not state how this could be done. *In order to suggest a possible solution to this significant problem, it is necessary to start from the consideration that only the residential premises will be saleable at a good profit. Dividing up the costs and revenues for the entire programme between residential and non-residential premises after apportioning ancillary costs (land reclamation, cost of utilities, technical expenses, etc.) gives the following results (in millions of euros):*

	Revenue	*Costs*	*Gross profit*
Residential premises (special and innovative)	*111.6*	*73.8*	*37.8*
Other functions (hotels & restaurants, music centre, lido)	*100.5*	*107.3*	*- 6.8*
Total	*181.1*	*212.1*	*31.0*

At this point it may be assumed that the financing needed to implement the integrated project, alongside the resources provided by the Municipality and private developers, could be raised via two financial instruments:

. a UDF, which channels resources from the Structural Funds, public authorities (municipal, provincial, regional) and institutional investors (pension funds, banking foundations) to finance the building of the non-residential premises (raising such resources in the market would optimise the recovery of invested capital);

. a real-estate fund with in-kind contributions of property, which channels resources from the institutional investors participating in the UDF in order to finance residential premises, market sales of which should generate adequate returns. Options to subscribe units in the fund would be offered exclusively to

the institutional investors participating in the UDF in a set ratio in relation to the number of units subscribed in the UDF.
This formula would make it possible to smooth returns to institutional investors, which would contribute to the realisation of the entire programme as a result of benefiting from the "smoothing" of returns between the income component and the pure recovery of invested capital.

3.2. "Baia di Levante", Piacenza[30]

The promoters of the project are the cooperative "Piacenza '74" and ANCAb (Associazione Nazionale Cooperative di Abitanti, National Association of Residents' Cooperatives). The proposal involves the Municipality and Province of Piacenza, the Politecnico di Milano, the Università Cattolica (Piacenza campus), the CNA (Confederazione Nazionale dell'Artigianato e della Piccola e Media Impresa, National Confederation of Craftsmen and Small and Medium-sized Enterprises) and the Chamber of Commerce.

The promoters also intend to involve other owners of real estate in the area to be regenerated, such as R.F.S., civil protection, agricultural consortium, military authorities, Consorzio Polo Logistico Piacentino, Ente Fiera (Trade Fairs Body), cooperative and private entrepreneurs, AIPO (former Magistrature of the Po), and various cultural, environmental and sporting associations.

The area in question extends around the central railway station and abuts the areas where the integrated plans "Piacenza X Piacenza" and "Contratto di Quartiere 2" are being implemented. The objective is to create a new "urban continuum" based on:

- complete reorganisation of activities associated with the functions of the railway station and long-distance buses;
- completion of roads and links;
- conversion of buildings and areas to serve new functions (warehouses, military railway station, fruit and vegetable market, agricultural cooperative land);
- regeneration of the areas between the railway and the Po river and of the Po river bank, relocation of inert materials treatment plant and subsequent carrying out of integrated and sustainable mobility projects (light railway station, cyclist and pedestrian tracks, premises for shops and workshops, etc.).

The planning work is due to begin, and should cover the following topics, among others:

- ownership of land and real estate;
- planning, scenic and environmental constraints and existing town-planning agreements;
- authorisation procedure; possible need to amend the General Regulatory Plan;
- environmental impact assessments;
- comparison with previous projects and studies in order to test the reliability of the project proposals;

[30] See notes of 05/02/2008 (Report No 22) and 27/03/2008 (Report No 30).

- verification of the cost of implementation, in particular the cost of land reclamation and environmental improvement;
- analysis of the possible revenue from the proposed works (disposal or long-term usage);
- master plan with interpretative proposals for particular areas;
- implementation plan (obviously complying with requirements for local public transport, the urban traffic plan and the Technical Implementation Regulations of the Regulatory Plan).

The proposed measures, which may change as planning proceeds, fall into three groups:

- measures requiring public financing, estimated at about EUR 26 million (road works, water systems and nature conservation, paving-over of canal, cycle tracks, square and equipped park, ground-level parking, regional headquarters of Civil Protection agency);
- measures that as a matter of principle are to be financed entirely by the private sector, estimated at about EUR 64 million (car parks, modification of buildings for new uses, public and private housing, multi-functional facilities: cinema, theatre, conference centre, hotel and restaurant);
- measures to be funded using a mix of public and private resources, estimated at about EUR 50 million, such as: primary utilities for the entire sector, construction of a "light railway" station and associated logistics, landing stage for small vessels, spaces equipped for sporting activities, security and monitoring installations.

Only when planning has reached a more advanced stage will it be possible to assess the reliability not only of the cost and revenue forecasts but also of the distribution of the necessary financial resources between public and private sources. It will then be possible to define the role and means of operation of a UDF, once it has been established whether the Region can use resources from the Structural Funds for2007-2013 for the specific project, and whether it is in its interest to do so.

3.3. "Barriera mobile", Turin[31]

The moniker "Barriera mobile" ("mobile barrier") represents the general objective of the project "Infrastructure and quality of life in the East-North-East quadrant of Turin", namely to generate rapid socio-economic growth in the areas known as "Barriera di Milano" and "Regio Parco". It is planned to use innovative methods to carry out major projects to improve metropolitan mobility, construct residential, commercial and service premises, create equipped green areas and implement high-tech initiatives (co-generation plant, robotics for health services).

Besides the City of Turin, the Plan involves Local Health Enterprise No 4 (which manages the Hospital of San Giovanni Bosco and is an outstation for the degree in Nursing Sciences of the Faculty of Medicine of the University of Turin); the Azienda Territoriale per la Casa (ATC, Local Housing Agency); the Scuola Universitaria Interfacoltà di Scienze Motorie (SUISM, Interfaculty University School of Motor

[31] See note of 13/03/2008 (Report No 27).

Sciences); Metropolitana di Torino – GTT (Turin Underground – Gruppo Torinese Trasporti); and the Associazione Robotica Piemonte (ARP, Piedmont Robotics Association).
The Plan relates to the "Barriera di Milano" district (formerly Quarter 18) and the Southern part of "Regio Parco" (formerly Quarter 20), located in District 6. The affected area measures 5 square kilometres, one-fifth of the area of the entire district; the resident population numbers 78,500, 74% of the district's entire population. The reorganisation of the area affected by the Plan is governed by Variant No 38 to the General Regulatory Plan approved on 3/4/2006.

The main constraints result from the presence in the area of:
- a cemetery compliance zone (Article 27(5) of Piedmont Regional Law 56/1977);
- a railway compliance zone;
- usage constraints, in particular for new road lines and public services (green spaces, car parks, sport).

The planned measures fall into three categories:
- category A (measures in the area of the former Vanchiglia railway yard), 4 projects;
- category B (measures in the area of the former St. Gotthard railway line), 2 projects;
- category C (measures relating to co-generation plant and intangible investment), 4 projects.

Each project is analysed and presented as though it were to be implemented and financed separately. In reality, the Municipality's feasibility study expressly states that during the process of defining the financial architecture for the entire programme alternative solutions may be identified that are better able to combine and optimise the different "repayment capacities" of the various proposed measures (which from the point of view of the possible PPPs include "cold", "warm" and "hot" projects). The form of PPP most frequently employed is the award of a construct-and-manage contract to schemes both public (Article 19 of Law 109/1994, the Merloni Law) and private (Article 37a of the Merloni Law and Articles 152 et seqq. of Legislative Decree 163/2006, the Public Procurement Code).

The following table summarises the planned investment (in millions of euros):

	cost	private resources	public resources
Category A	173.2	147.5	25.7
Category B	210.4	87.25	123.15
A + B	383.6	234.75	148.85
Category C	25.6	11.75	13.85
A + B + C	409.2	246.5	162.7

As regards financing under JESSICA (via a UDF), it is important to note the clear distinction between measures in categories A and B on the one hand and those in category C on the other.

Those in categories A and B are strictly investments in urban transformation and regeneration (environmental rehabilitation, sustainable mobility, university residences, centres for personal and business services (ASPI) and a health services centre), whereas those in category C are highly specific investments (new co-generation plant, intangible investments in innovative technology projects and incentives for innovative business start-ups). Category C investments rate highly for the Integrated Plan, for the purposes of its emphasis on the environment (energy in particular) and innovation (for the launch of new "urban entrepreneurs" in particular). Considering, however, that the financing of such investment falls under national and regional law, which lays down specific rules for the disbursement of public resources and for reporting on expenditure, it can be said that JESSICA will perform an indirect *supervisory* role with regard to such investment, not least to promote possible JEREMIE measures for the launch of innovative SMEs (for example, in the energy services sector and/or in the application of robotics in the health field) and *not a financing role*. The scale of JESSICA financing should therefore be determined predominantly in relation to category A and B investments.
It appears that investments in those categories will be recovered from management of the assets created, not from their sale; upon expiry of the management contract they should revert fully to the public sector.

There would be no reason for the UDF to take the form of a closed-end real estate fund with in-kind contributions, the preferable structure for contributions of assets that are to be enhanced and sold. A closed-end investment fund could accord well with the need for equity financing of the various PPPs that should be established.

The possible procedure, in brief:

- reorganise A and B measures into homogeneous functional lots (according to categories of works to be carried out and managed), ensuring that each lot has a "tolerable" mix of "hot" and not-so-hot projects;
- develop, for each lot, a business plan highlighting the main aspects and criteria for involvement of the UDF;
- gain the greatest possible consensus of potential institutional investors willing to subscribe UDF units;
- draft a notice of competition for each lot (usually in two stages: preselection and subsequent project and price offer) to find a promoter in accordance with Article 37a of the Merloni Law as subsequently amended. In addition to the usual conditions, the notice should also state the criteria for possible UDF involvement;
- select the implementer(s) and manager(s), establish the UDF or its specific compartment for the Plan, laying down in the statutes the remuneration on the units subscribed by institutional investors, which may differ from that on the units subscribed by public authorities;
- have the UDF acquire units or shares in the various PPPs (vehicle companies) that have been set up and implement both its internal procedures for monitoring/managing the shareholdings and the Community reporting procedures (for any Structural Fund resources used).

3.4. "San Raffaele del Mediterraneo" - Taranto32

The project, which is being promoted by the San Raffaele di Milano Foundation, relates to investment in new clinical and research facilities in an area currently owned by IRI group companies adjacent to the Cittadella della Carità; the zoning of the area and the willingness of the owner to sell or lease it are currently under investigation. The investment would be of the order of EUR 135-140 million for building work and plant and EUR 25-30 million for equipment and furnishing. At the same time, the premises of the SS. Annunziata hospital complex in the city centre would be sold, taking into account the opportunity and conditions for transferring staff and facilities to the new site. Intangible investment is also planned for technology transfer, training, managerial experimentation, clinical research projects, the propagation of preventive procedures, etc. The amount of such investment has yet to be estimated, in parallel with definition of the form of governance for the new San Raffaele del Mediterraneo Foundation.

The project presents characteristics of excellence that warrant further study into the possibility of JESSICA involvement (for the part of the financing that can be configured as "recoverable") and possibly EIB financing as part of national co-financing of activities consistent with the relevant sections of the Regional Operational Programme (POR) Puglia 2007/2013.

A preliminary study should analyse the public resources available.
In particular:

- Resources from the POR Puglia 2007/2013,[33] Section III "Social inclusion and services for quality of life and attractiveness of the territory", in particular "Health infrastructure", and Section VII "Competitiveness and attractiveness of the cities and urban systems", in particular "Integrated Plans for urban and territorial development".
- Main national sources: resources under Article 20 of Law 67/1988 (Special programme of investment in building works and technology in the health sector); resources under Article 71(1) of Law 448/1998 (Special plan for the reorganisation and improvement of health services in certain large urban centres, particularly those in the Centre and South; resources of the Istituto Nazionale per l'Assicurazione contro gli Infortuni sul Lavoro (INAIL, National Institute for Insurance against Accidents at Work).
- Innovative programmes of experimental management techniques in the health sector: Article 9a of Legislative Decree 502/1992, as amended and supplemented by Article 3(6) of Decree Law 347/2001, ratified by Law 405/2001, lays down that the Region may authorise trials of new managerial methods involving public-private cooperation between National Health Service facilities and private bodies, including the formation of companies with mixed public and private capital.
- FAS (Fondo Aree Sottoutilizzate) resources that can be drawn on under the Memorandum "Quadro strategico per salute, sviluppo e sicurezza nel Mezzogiorno" (Strategic framework for health, development and security in

[32] See note of 03/06/2008 (Report No 37).
[33] ERDF Operational Programme 2007/2013, approved by Decision No 146 of the Regional Council of 12 February 2008.

the South), issued by the Ministry of Health in April 2007 to lay the ground for a Memorandum of Understanding between the Ministry of Economic Development, the Ministry of Health and the Southern Regions. The substance of the Memorandum may be the subject of an Agreement between the Government and the Regions to pursue common objectives (under Article 8(6) of Law 131/2003) or an Agreement between the Government and the Regions (under Article 4 of Legislative Decree 281/1997) to coordinate the exercise of the parties' respective powers and carry out activities of common interest. In particular, 30% of FAS resources would be allocated "to support programming requirements during implementation under the priorities of the NSRF 2007/2013 or new unforeseen requirements; to finance incentives to be granted on the basis of the attainment of service objectives; to create a reserve fund to reward quality projects to be implemented during the programming period; to finance one or more strategic health projects of excellence with an interregional or supra-regional dimension, of an experimental or pilot nature, which will be detailed during the implementation stage and will have reference to the agreements on health between the Ministry of Health and the Presidents of the Regions".

- Resources in addition to ordinary funds. The resources allocated for the new Health Pact under Law 296/2006 amount to around EUR 2.5 billion for the three years 2007/2009, with at least EUR 500 million a year being earmarked for the Southern Regions for priority objectives under the National Health Plan.

3.5. "Use of a closed-end investment fund for development purposes"[34]

The contributions to the first report "Implementation of JESSICA in the Region of Liguria" included research to identify financial instruments for which there is already provision in national procedures for assisted investment and which could present similarities with Urban Development Funds promoted under the JESSICA initiative.

In particular, the study considered the procedure by which the Minister of Innovation, in a Ministerial Decree of 18/10/2005, sketched out the potential for promoting innovative SMEs operating in the South by providing financial support via one or more closed-end investment funds, selected by public competition, to which the Ministry and institutional investors would contribute financial resources to achieve predetermined goals. The similarities between this financial instrument, called for short FIM (Fondo Innovazione Mezzogiorno), and a UDF are described below.

Strategic framework

The socio-economic development of the South requires the construction of adequate infrastructure and innovative promotion business initiatives; for the latter, in particular, effective support instruments must be provided.
Shares in the FIM will be held by the Ministry (using resources allocated on an ad hoc basis by the CIPE) and institutional investors, reassured by the presence of the

[34] See note of 08/10/2008.

Ministry and the preferential treatment granted to them with regard to the return on the invested capital.
The operations of the FIM are governed by its Statutes (approved by the Bank of Italy), which must include the general and specific objectives laid down in the notice for selection of the management company.

Similarly, the development of "sustainable communities" requires the launch of integrated plans comprising projects in high-quality public-private partnerships. A UDF is a financial instrument that may take various legal forms, including that of a closed-end investment fund. This is potentially an appropriate means of attracting institutional investors interested in sustainable development in urban areas. Private investors would be encouraged to acquire shares in the UDF by the involvement of public investors (in particular the regions, which would channel resources allocated under PORs to the UDF) and the setting of criteria in the Statutes that could offer better conditions for the recovery of invested capital than financial resources from public sources.

Governance and monitoring

The procedure of the Ministry of Innovation lays particular emphasis on "governance and monitoring" for the operation of the FIM. The perspective adopted is that of the public sector as financier, since it is considered that the interests of private investors can be sufficiently protected by setting out appropriate criteria and rules in the FIM's Statutes. However, the arrangements foreseen for optimising governance and monitoring of the operation of the FIM offer transparency and control features that are also of undoubted interest to private investors. Such solutions could therefore also be examined from the point of view of the operation of a UDF.
In brief, before the competitive procedure for the allocation of public financial resources is carried out, a "steering and control committee" is formed, comprising representatives of the public authorities involved (Ministries of Innovation, Economy, Development), with a remit to:

- carry out the competition to select the management company and the funds in which investment will be made;
- carry out monitoring and control according to a predetermined plan and outlined in the procedure itself;
- perform the other activities necessary to ensure the correct operation of the FIM.

4. Conclusive considerations

Implementing a new legislative framework to grant financial assistance for investment in infrastructure and/or in commercial ventures takes a rather long time in Italy, usually at least three years for the implementing agencies to define the new procedures in detail and to test them. The situation is even more complicated in the case of the JESSICA initiative. JESSICA tends to involve private institutional investors to support investments in PPPs for sustainable urban development. This calls for their respective viewpoints to be assimilated and harmonised. In particular, the invested capital must be repayable and must be remunerated according to market principles. The managing authorities are not prepared for this new scenario, in which

they would have to assume managerial and entrepreneurial responsibilities, not simply apply and monitor predetermined procedures. Their inertia in the face of the possibility of abandoning (or at least reducing) their traditional and established role in the management of incentives in the form of outright grants is patently obvious.

The study did not bring to light actual cases that could serve as examples or models for the JESSICA initiative. Nor has the FIM model, which appears to have a well-defined operational procedure, achieved the hoped-for level of operations, as the opportunities for investment in innovative SMEs in the South remain extremely limited.

Moreover, potential institutional investors (banking foundations, pension funds, etc.) are waiting for exemplary cases that can demonstrate, at last a priori, that the level of risk for the expected return on their investment is acceptable.
A step forward in attracting institutional investors could perhaps be achieved if an authoritative body were appointed at Community level to grant a “quality mark” for JESSICA projects, after having analysed them from every aspect.