



## JESSICA evaluation study Flanders

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## 1 SUMMARY AND EPILOGUE

### 1.1 Summary

#### 1.1.1 *Context of the study*

This evaluation study has been commissioned by the European Investment Bank (EIB) and the Council of Europe's Development Bank (CEB) and financed by the European Commission. EIB/CEB are mandated by the EC to help Management Authorities with the evaluation of opportunities and the eventual implementation of JESSICA.

The evaluation study for Flanders was induced by Marino Keulen, Flemish Minister of Interior Affairs, Housing and Urban Policy.

#### 1.1.2 *JESSICA*

The scope of JESSICA is multiple:

- to streamline ERDF-support for urban development in revolving funds, creating long-term investment potential
- to increase the involvement of private sector investors and international financial institutions within urban development
- to create an impetus for more sustainable projects

The basic JESSICA scheme is elaborately described in chapter 3 (Introduction on JESSICA). The main element of the JESSICA-framework is the "urban development fund (UDF)", a fund investing in public-private partnerships and other projects included in an integrated plan for sustainable urban development. In case more UDFs are set-up, these could be managed and set up by a "holding fund (HF)".

Main generic benefits of JESSICA are the following

- Efficient cash management of ERDF-contributions
- The revolving character of investments creates opportunities towards new investment cycles.
- Knowledge and capacity building through the involvement of international financial institutions and private sector players.
- Risk-reduction for cities and private sector investors through the involvement of a public co-investor.

#### 1.1.3 *Target of JESSICA in Flanders*

Several investment opportunities for JESSICA in Flanders have been identified. Most of them have been already within the scope of urban renewal policies or ERDF-programs:

- **Large-scale urban wastelands:** in many Flemish cities, important unused terrains can be found, sometimes on strategic locations, as relicts of de-industrialisation of the city. Moreover, many of these terrains are owned by (semi)-public parties. Projects on these sites need long-term involvement, but also offer important opportunities for high-impact investment through their scale.
- **Brownfield development:** the Flemish Region is confronted with the contradiction of high demand for activity zones and important stocks of deteriorated and polluted former activity plants. The redevelopment of these buildings and terrains is since long a priority for the Flemish Authority.

- **Micro-regeneration:** some cities have been experimenting with revolving funds for area development through renovation and remarketing of properties. Other cities have interest in this practice but lack funding.
- **Thematic investments:** the Flemish Authority has shown ambition for important thematic investments in leisure, tourism, culture and sports. Many of these will be situated in cities and eventually be part of larger development schemes.

Many of these opportunities/projects are interlinked through an integrated urban development plan. The portfolio approach of JESSICA could therefore be a powerful tool.

Towards cities, the JESSICA framework can offer following opportunities:

- **City-based funding:** Large projects such as the Loop (Ghent), Eilandje (Antwerp), Oude Dokken (Ghent), or asset portfolios within a city could be an opportunity of city-based UDF, making streamlining of funding easier within the city.
- **Risk-reduction:** the involvement of a regional partner in a UDF can reduce the risks for a city on several areas: second-opinion of projects, negotiation with private partners, streamlining of regional funding,...
- **Knowledge:** Especially towards smaller cities, with disparate project deal-flow, an experienced project partner can bring in the knowledge for efficient project delivery and quality management.

#### 1.1.4 Efficiency of financial engineering for area development

The JESSICA framework enables the shift from classical public investment through grant-finance towards more revolving financial engineering instruments, such as:

- Equity participations
- Repayable loans, eventually with advantageous repayment conditions
- Guarantees

The efficiency and potential of this approach was tested through a case study (the Loop, Ghent) for which the following scenarios have been tested:

- 0-scenario: a development under market conditions with 11 Mio of grant funding (as foreseen today).
- JESSICA-scenario 1: development through a UDF with 50% public equity- 50% private equity on publicly owned land.
- JESSICA-scenario 2: additional guarantees through the UDF are given, which could create more beneficial (loan)-finance conditions.
- JESSICA-scenario 3: an additional public loan is given through the UDF, with beneficial interest conditions.
- JESSICA-scenario 4: given the fact that the project has an important profitability gap on the parking exploitation, the effect of a project optimisation is tested (shifting from grant finance to financial engineering should be an impetus for more sustainable developments)
- JESSICA-scenario 5: the legal framework on JESSICA makes it possible to preferential returns for private partner (Commission Regulation 1828/2006 art. 43 §7)

A complete overview of the underlying assumptions of scenarios can be found in chapter 6 (theme 3: projects and funding).

*Table 1: Overview of results from funding scenarios the Loop*

	BASIC SCEN.	JESSICA SCEN. 1	JESSICA SCEN. 2	JESSICA SCEN. 3	JESSICA SCEN. 4	JESSICA SCEN. 5
project IRR	17,59%	13,88%	13,70%	13,69%	13,24%	13,69%
finance	inv. 0,0	ROI 7,29%	inv. 22,4	ROI 6,00%	inv. 22,4	ROI 6,00%
land (sub. debt)	22,4	7,29%	0,0	n/a	0,0	n/a
land (equity)	8,6	7,38%	0,0	n/a	0,0	n/a
private equity	0,0	n/a	4,2	7,51%	4,2	9,03%
private equity (UDF)	0,0	n/a	4,2	7,51%	4,2	9,13%
public equity (UDF)	0,0	n/a	4,2	9,03%	4,2	9,13%
guarantee (UDF)	0,0	n/a	0,0	n/a	0,0	n/a
com. loan	16,2	5,50%	15,8	5,50%	9,1	5,50%
public loan (UDF)	0,0	n/a	0,0	n/a	6,8	3,00%
grant	11,0	n/a	0,0	n/a	0,0	n/a
total sources of finance	58,2	46,6	53,5	46,7	44,3	46,7
total cash attribution	35,8	24,2	31,1	24,3	21,9	24,3
total public (JESSICA) funding	0,0	4,2	11,0	11,0	11,0	11,0

Source: Financial model IDEA Consult

This analysis learned the following:

- The application of JESSICA for spatial developments on publicly owned assets can be very powerful, because the land value can be an important funding source.
- When JESSICA can be an impetus for efficient financial project architecture, public funding could be made revolving
- Specifically the modalities of CR 1828/2006 art. 43§7 could be further investigated for high-risk developments such as brownfields or regeneration within deprived urban areas.

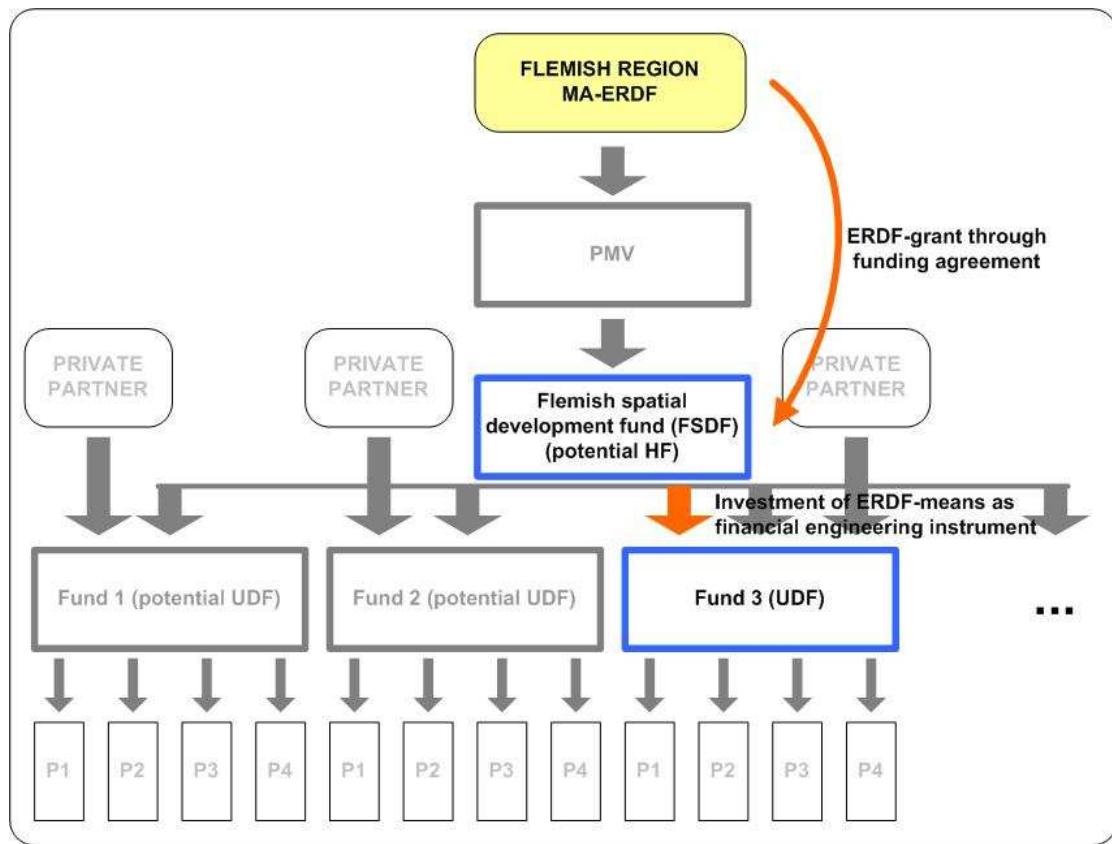
#### *1.1.5 JESSICA-structure for Flanders*

A possible structuring for JESSICA in Flanders is based on the following basic principles:

- **Equity funding**, eventually completed with other financial engineering instruments. The base of equity funding should ease transition from grant finance to financial engineering because both funding sources have the same risk-profile. Besides this should reinforce public-private coproduction and create greater responsibility of public partners towards efficient project delivery.
- **Closed funds**: recent large-scale PPP-portfolios in Flanders have shown that this is a complex process wherefore market players are not always enthusiastic. Therefore it is advised to start with clearly defined and demarcated project portfolios. This will lead to multiple UDFs which can be structured under a HF.
- **Bottom-up approach**: it is little likely that the current Flemish ERDF-programme will be restructured. Besides, most cities count on a slice within the available budget to finance ongoing projects through traditional grant finance. However, active communication could convince some of these cities to structure these projects as UDF.
- **PMV as investment channel**: PMV has been the investment channel for multiple regional PPP-structures. Besides, the funding decree of PMV states the possibility that PMV can execute special missions for the Flemish Authority without public procurement procedure. This can ease possible transfers of ERDF-funds from the Management Authority to a HF and UDF structured as subsidiaries of PMV.

An overview of the structure is given hereunder:

Figure 1: General JESSICA structure for Flanders

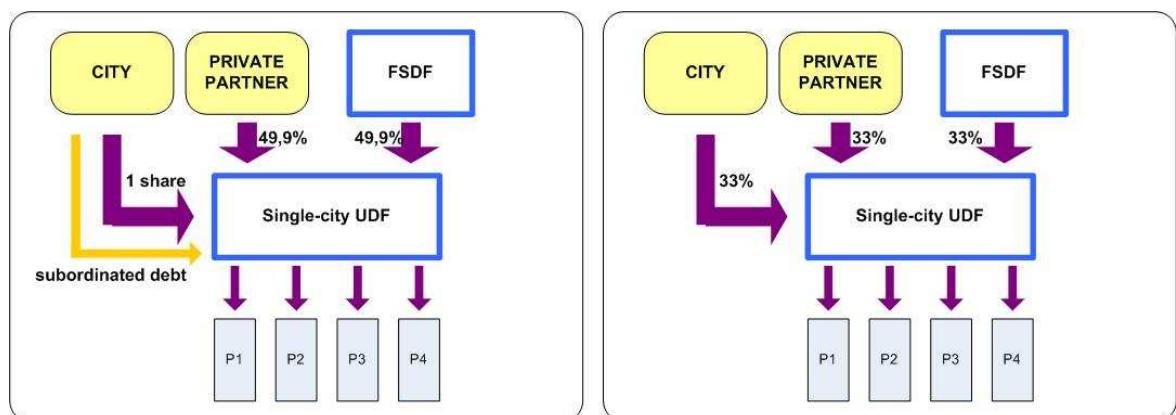


Three different types of UDFs have been defined:

### **single-city UDF**

This UDF is composed of a portfolio of projects, part of an integrated urban development plan or an asset-portfolio comprising project on strategic locations. Depending on the nature of the projects and the composition of properties, the role of the city can be defined. Anyhow, the city should always have a position within decision structures of the UDF.

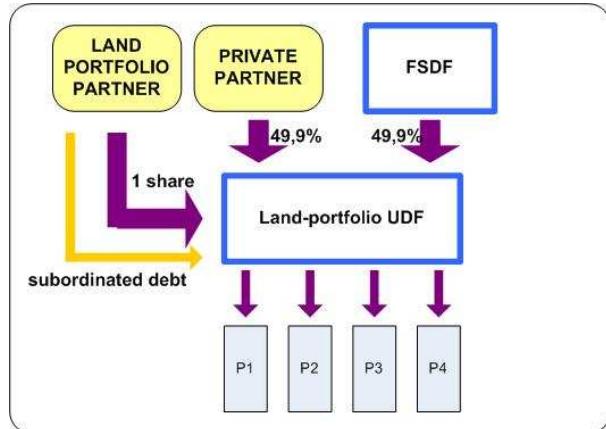
Figure 2: Single-city-UDF – 2 generic proposals



## Asset portfolio UDF

This UDF is based on portfolios that have been identified, owned by government bodies or other publicly owned institutions. Important assets within these portfolios are situated on strategic locations within cities. The development of these portfolios through a UDF should ease the integration within a strategic project for a city.

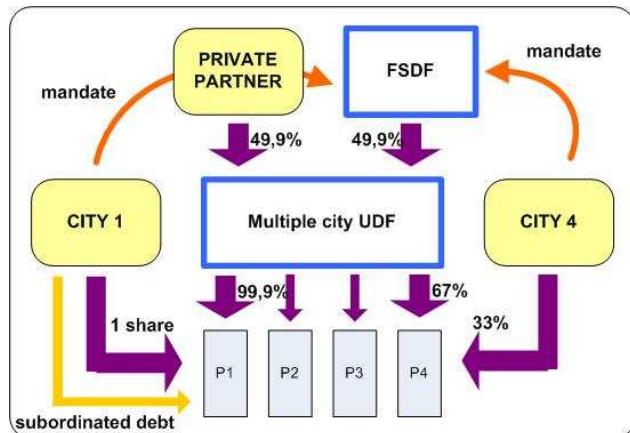
*Figure 3: Land portfolio UDF – generic proposal*



## Multiple-city UDF

Most Flemish cities are rather small with a disparate deal-flow of projects. Therefore, it is difficult for these cities to set up well equipped project delivery vehicles. Structuring urban development projects in these cities through a UDF should ease funding for these projects, but also make knowledge transfers between cities and projects possible.

*Figure 4: Multiple-city-UDF – generic proposal*



### 1.1.6 Pilots

In the short run, JESSICA could eventually be implemented within the current OP under Priority 4. This should be done through a bottom-up approach. Active communication and promotions towards cities could possibly convince them to structure some of their larger development projects within a JESSICA structure. Specifically, large development zones such as Oude Dokken in Ghent, Petroleum Zuid in Antwerp and Eilandje in Antwerp could be interesting pilots.

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### 1.1.7 *Conclusions*

Main benefits of JESSICA in the Flemish Region could be the following:

- Better cash management of ERDF-resources for the Region and for cities and project promoters.
- The opportunity can be taken forward to create a revolving fund for urban development in Flanders.
- The philosophy of the approach will lead to more sustainable and economically viable projects.
- The approach can stimulate social responsibility of private investors and bring them to projects in which they wouldn't be interested under normal market circumstances.
- The approach will stimulate knowledge transfer between cities and the Flemish Region

## 1.2 Epilogue

Answers always lead to new questions. Discussion of this report within a Flemish Steering Committee led to an interesting discussion in which following general remarks and questions rose:

- In a further exploration of JESSICA and the opportunity for a fund for investment in urban renewal projects, the main objective should be "to bring the market to projects". Strategic planning (regional, provincial and local spatial structure plans) is entering a new planning cycle in which this approach could be taken forward.
- The chosen test project of the Loop is a rather easy project. Practice within a concrete pilot should show the potential towards more complex projects.
- One of the very concrete results of the urban renewal initiative has been the stimulation of "ownership" and pride of cities towards their projects. The involvement of an urban development fund should not lead to a situation where cities are not involved in their own projects anymore.
- The proposition of 3 types of UDF will lead to more hybrid types through concrete implementation in cities. Indeed, a portfolio of former railway land will involve the concrete cities in which these are located. In this perspective, a mix between a portfolio UDF and a multiple-city UDF will arise.
- The fund proposal needs further testing towards the ESR-95-framework. It can already be indicated that JESSICA is about shifting from existing resources (ERDF + regional cofinance) towards financial engineering instruments, the option of more spending is a political decision.
- The proposed UDF-structures are an interesting proposition towards the creation of instruments for joint projects execution between cities and their periphery.
- The proposed planning for implementation does not reflect any formal decision or engagement of the Flemish Government or one of its Ministers. The planning indicates which terms should be foreseen in case a decision is taken.

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## 2 INTRODUCTION

### 2.1 Introduction

JESSICA stands for Joint European Support for Sustainable Investment in City Areas. This initiative is being developed by the European Commission and the European Investment Bank (EIB), in collaboration with the Council of Europe Development Bank (CEB). Under new procedures, Member States are being given the option of using some of their EU grant funding, their so-called Structural Funds, to make repayable investments in projects forming part of an integrated plan for sustainable urban development. These investments, which may take the form of equity, loans and/or guarantees, are delivered to projects via Urban Development Funds and, if required, Holding Funds.

The EIB, with support of the CEB, is given the responsibility to put forward the implementation of JESSICA within the Member States and Management Authorities. A lot of feasibility studies have already been launched and are leading to the first implementations of JESSICA.

The Flemish Minister for Urban Policies, Marino Keulen, invited the EIB to start up an evaluation study for Flanders. This evaluation study should indicate where JESSICA could eventually create added value for financing and executing integrated urban renewal projects.

### 2.2 Terms of reference

#### 2.2.1 Objectives

In order to analyse the value added and potential benefits from implementing JESSICA in Flanders as well as its added value for city development in Flanders and, if applicable, suggest recommendations for further steps towards introducing adequate financial engineering mechanisms, the Evaluation Study should have the following objectives:

- **Objective 1:** To establish the rationale for and the financial feasibility of using JESSICA in the Flemish Region and review the potential for using UDFs to accelerate investment to achieve Urban Policy Goals.
- **Objective 2:** To identify the key market participants for JESSICA from public and private sectors in urban renewal as well as the existing investment structures together their potential roles and contributions to the success of JESSICA in the Flemish Region, investigating and evaluating the gaps for financial engineering actions and products in the urban regeneration sector that could be supported by JESSICA in the Flemish Region.
- **Objective 3:** To identify and evaluate how to evolve from existing financial mechanisms in the Flemish Region into financial engineering actions and products targeting sustainable urban transformation that could be supported by JESSICA-type instruments through ERDF or other Operational Programme resources. To identify what are the possibilities and limitations of actual ERDF programme and how can be linked to the projects in JESSICA.
- **Objective 4:** To propose adapted structures for the implementation of JESSICA in the Flemish Region including a description of pilot JESSICA Funds, taking into account any legal or state aid constraints and the need to minimise additional management and implementation costs, including supervision and reporting requirements. It would be appropriate to select a limited number of pilot projects being part of Integrated Plans for Sustainable

Urban Development consistent with the Flemish operational programme in order to analyse more in depth and in a concrete way how JESSICA mechanisms could improve their financial and economic performance.

- **Objective 5:** To suggest an action plan and a timetable for JESSICA in Flanders, taking into account results of the analysis described in Objectives 1 to 4.

The study has to address all of these objectives.

### 2.2.2 Research Tasks

1. Reviewing the existing instruments for Urban Regeneration projects in the Flemish Region, such as different funding and support mechanisms for city development (such as brownfield redevelopment, taxation of unused real estate -leegstandfonds-, funding on regional level as in Limbourg). Identification of existing investment delivery vehicles/structures as well as their capacity/implementation gaps, which could be used for the purpose of JESSICA's optimal implementation in the Flemish Region. This review should also include the description of the ability and capacity of public authorities and public agencies in the Regions to provide equity, loans, guarantees and other non-grant financing to Urban Regeneration projects as well as the demand for such products.
2. Presentation of budgetary implications for MAs of using JESSICA, including comparative cash-flows showing the difference between employing current vs. JESSICA mechanisms (revolving instruments), highlighting differences in timing, interest income, etc. Demonstration of how the leverage effect of existing instruments for urban renewal projects financing can be increased.
3. Assessment of non-budgetary implications for MA of using JESSICA regarding volume, quality (including sustainability) and timing of Urban Regeneration investments, as well as how JESSICA can contribute to improved quality and control.
4. General evaluation of the "planning environment" and specific spatial context & development imperatives (such as urban development to foster cohesion/integration) in the Flemish Region at the relevant geographical levels (e.g. municipal, regional, community). Investigation of the ability and familiarity of regional and local authorities to develop integrated approaches in the urban sector, with an emphasis on examining existing procedures for the preparation and adoption of plans which could qualify as "Integrated Plans for Sustainable Urban Development". Review of a sample of Integrated Urban Development Plans in Flanders, which can be the source of JESSICA Projects. Which guarantees, possibilities should be used for increasing and reinforcing competence building in the cities?
5. Identification and overview of selected JESSICA Projects in the above mentioned Integrated Urban Development Plans ("Pilot JESSICA Projects"), together with selection criteria to be defined by the Flemish Steering Committee. This overview of Pilot JESSICA Projects should include: background and rationale, including public interest aspects, financial analysis of anticipated commercial performance (description of potential revenue generating capacity), timing of implementation, readiness for JESSICA type funding and other key information relevant for JESSICA. (Pilot projects can possibly be among those currently being executed by cities under the conventional ERDF framework.)
6. Review of potential partners/vehicles in the following sectors: Flemish and international banks and other commercial financial institutions, international financial institutions (including EIB and CEB), public authorities (including cities and municipalities), public agencies and other public institutions (including the Office of the Flemish Minister for Urban Policy, City Fund /

urban regeneration companies, development agencies, etc.), investment funds of various types, property developers, NGOs and other relevant parties. Recommendations on how to integrate and best select these different actors/stakeholders will also be required within the current legal framework, including law on government procurement.

7. Description of how to evolve from a public-private cooperation into a public-private production and service delivery capability, with shared responsibilities and generating of revenues, also for the public sector.
8. Indications of the most appropriate and advantageous strategy to implement JESSICA in Flanders including:
  - An evaluation of the option to establish a Holding Fund indicating the appropriate configuration to be established in the Flemish Region, including the scope of its activity the governance and managerial aspects, costs, advantages from early disbursement of Structural Funds and potential for facilitating the establishment of UDFs.
  - Recommended structure of envisaged UDFs in the Flemish Region – number, aims, type (lending, equity, hybrid instruments, guarantees), size, governance, outlined investment strategy (geographical and/or thematic), potential for co-financing, etc. taking into account the need to minimise management costs and implementation bureaucracy. Indications on the type of projects and project portfolios that would be most suitable for each type of instrument (UDF) proposed. Recommendations should take account of urban priorities identified in different cities and other conditions identified in the Flemish Region, as well as any relevant legal constraints.
9. Recommended possible utilisation of Structural Funds for the JESSICA initiative based on the current state of implementation and fund allocation commitments of the Flanders Operational Programmes. Examine how JESSICA mechanisms could be embedded in the existing OP procedures and commitments and identify costs and advantages to key stakeholders such as Managing Authority and cities, compared with continued reliance on grant funding.
10. Examination of the likely concrete operation of the proposed UDFs, with some case studies and/or simulations to test the efficacy of the recommended JESSICA implementation strategy. This evaluation should also include an estimate of management costs.
11. Recommendations on how to integrate issues on monitoring, quality control and reporting requirements.
12. Recommendations on how JESSICA should be taken forward in The Flemish Region. This should include practical tools, which should be developed, actions, which should be launched to support the application and management of JESSICA and to embed JESSICA in the existing administrative procedures and regulations. A time scale and critical path for the implementation of the new structure will also be required. In this context, the opportunity of establishing UDFs initially without recourse to Structural Funds should also be examined.

## 2.3 Methodology

### 2.3.1 General research structure

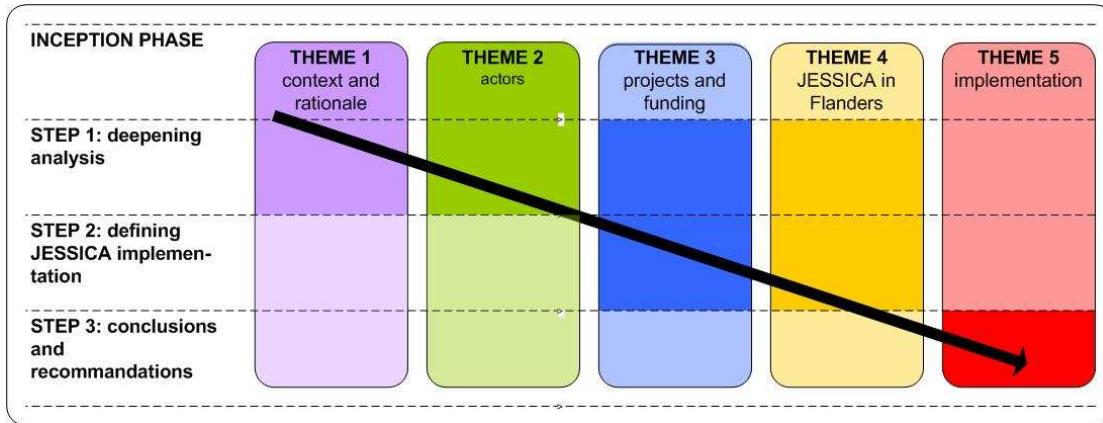
In order to analyse the value added and potential benefits from implementing JESSICA in Flanders as well as its added value for city development in Flanders and, if applicable, suggest recommendations for further steps towards introducing

adequate financial engineering mechanisms, the Evaluation Study will have to focus on 5 objectives.

We will use these 5 themes as structuring elements of this study, namely:

- Theme 1: the context of and the rationale for Jessica in Flanders;
- Theme 2: the actors
- Theme 3: the projects and funding
- Theme 4: the structuring
- Theme 5: the implementation

This thematisation induced a project plan, organised by themes.



For the project execution the following research techniques were used:

- Financial case study: an in-depth analysis of the Loop permitted to test several funding and financial engineering techniques. We hereby built on an earlier financial analysis, executed by City Beautiful in 2006.
- Literature search: mainly on policy documents (Flemish and European) and legislative provisions on JESSICA
- Workshops: several workshops were held with legal experts from Laga, with Damo Holt (author of evaluation study for the Netherlands) with the JESSICA task-force of EIB-CEB and with PMV
- Interviews: with several (potential) stakeholders interviews were held. An overview is given in the following paragraph.

### 2.3.2 *interviews*

Interviews were held with different direct and indirect and eventual stakeholders:

#### **Policy stakeholders:**

- 24/10/2008: Bart Huybrechts (PMV real estate) and Frank Van den Eeckhaut (PMV PPP), **PMV (Participatiemaatschappij Vlaanderen)**
- 20/10/2008: Monique De Ceuster, Caroline Ryckeboer and Paul Van Herpe (deputy-managers), **City Policy Unit**
- 28/10/2008: Linda Boudry, manager of the **Flemish Knowledge Centre on Cities**, former member of the City Policy Unit
- 29/10/2008: Ahmed Abdelhakim, **ERDF unit of the Flemish Administration**
- 12/11/2008: Marleen Van Ouytsel: counsellor of Marino Keulen, **Flemish Minister for Urban Policies**
- 22/12/2008: Steven Van Garsse, manager **Flemish Knowledge Center on PPP**

#### **Developers**

- 09/01/2009: Nicolas Béarelle, **re-vive** (in formation) brownfield developer
- 08/01/2009: Peter Gestels, head of development at **Van Roey Projects**
- 26/01/2009: Bart Van de Velde (development manager) and Luc Janssen (director) at **Breevast**

## **Banks and investors**

- 05/01/2009: Peter Van Heukelom (manager public finance) and Christine De Cafmeyer (manager Social Profit and local authorities), **KBC bank**
- 12/01/2009: Myriam Lint (senior public banker) and Steven Benoit (manager financial engineering), **Dexia bank**
- 30/01/2009: Gilles Emond (development manager), **Fortis Real Estate**

## **Cities**

- 15/01/2009: Peter Wittocx, Bram Van Dyck, Tom Depuydt, Gerda Van Hove and Myriam Colle (urban planning and development), **City of Mechelen**
- 21/01/2009: Trui Tytgat (manager AGB SOK) and Frans Van Den Bossche (head of strategic planning), **City of Kortrijk**
- 05/02/2009: Joris Demoor (coordinator funding and grants) and Frank Van Goethem (AGSOB), **City of Ghent**
- 24/02/2009 Roeland Gielen, (strategic coordinator), Hardwin De Wever and Griet Geerinck, (directors of the urban planning agency), **City of Antwerp**

## **2.4 Reader's guidance**

### **2.4.1 *Structure of the report***

This report first set out a general introduction on the general JESSICA-framework and the rationales and principles behind it. Also, a small introduction is given on two JESSICA-like strategies in neighbouring countries: OPP in the Netherlands and BLUEPRINT in the UK.

The further report is structured through the five research themes, in which the research tasks are clustered. These themes form the structure of the report.

- **Theme 1: the opportunity for JESSICA in Flanders**  
This theme gives an overview of existing practice in urban development in Flanders, indicates major possible objectives of a JESSICA-structure and zooms in on the Flemish ERDF-programme. Conclusions are made towards possible rationale(s) and objectives of a Flemish JESSICA-strategy.
- **Theme 2: the actors and their role in urban renewal**  
In this chapter an overview is given on the roles from both public and private actors in the field of PPP and urban renewal. Conclusions are made towards possible roles of actors in a JESSICA-strategy.
- **Theme 3: urban projects and financial engineering**  
This chapter first gives an overview of existing practice of PPP within urban renewal in Flanders. The role of grant funding and the potential of a JESSICA-strategy is tested towards a project case study. Finally, recommendations are made on project selection criteria. A list of possible pilots (out of existing policies) is given.
- **Theme 4: a Flemish JESSICA structure**

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This chapter is the core of the report and explains a possible structure for a JESSICA-like and JESSICA strategy in Flanders. Operational, financial and legal issues of the proposed structures are elaborated.

■ **Theme 5: implementation and conclusions**

This final chapter first draws the major benefits of the JESSICA-framework for the Flemish Region, the cities and the private sector. Critical success factors are indicated. An action plan and a time schedule for implementation of JESSICA in Flanders is given.

#### 2.4.2 Abbreviations

## ABBREVIATIONS ON JESSICA FRAMEWORK

CEB	Council of Europe Development Bank
EC	European Commission
EIB	European Investment Bank
ERDF	European Regional Development Fund
EU	European Union
Evaluation Study	The analysis covering elements as described in these Terms of Reference
HF	Holding fund as described in the Community regulations regarding JESSICA
Integrated Plan for Sustainable Urban Development	A plan prepared, authorised or supported by public authorities and aimed at Urban Regeneration, as referred to in the Community regulations regarding JESSICA
IFIs	International Financial Institutions
JESSICA	Joint European Support for Sustainable Investment in City Areas – financial engineering mechanism, as defined in the Community regulations
JESSICA Fund	UDF and/or HF
JESSICA Projects	Projects or programmes, which are part of Integrated Plans for Sustainable Urban Development and meet other eligibility criteria enabling them to be potentially funded by UDFs, as further described in the Community regulations regarding JESSICA
MA	Managing Authority, as defined in the Community regulations regarding structural funds
PPP	Public and private partnership
PPC	Public Private Cooperation
UDF	Urban development fund as described in the Community regulations regarding JESSICA
Urban Regeneration	A range of actions aimed at sustainable renewal, rehabilitation, redevelopment and/or development of city areas

## ABBREVIATIONS FROM FLEMISH CONTEXT

RVS	<i>"Ruimtelijk Structuurplan Vlaanderen"</i> - Flemish regional spatial development framework
AGB	<i>"Autonomo Gemeentebedrijf"</i> - autonomous municipal development agency
POM	<i>"Provinciale ontwikkelingsmaatschappij"</i> – Provincial Autonomous Development Body
W&Z	<i>"Waterwegen &amp; Zeekanaal"</i> – autonomous agency for the exploitation of Waterways and surrounding land stocks
PMV	<i>"Participatiemaatschappij Vlaanderen"</i> – investment company of the Flemish Authority
NMBS	<i>"Nationale Maatschappij voor de Belgische Spoorwegen"</i> - Belgian Railways
FSI	<i>"Fonds voor Spoorweginfrastructuur"</i> – land stock portfolio vehicle of the Belgian Railways
FSDF	Flemish Spatial Development Fund – proposed HF

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### 3 INTRODUCTION ON JESSICA

#### 3.1 Key characteristics of JESSICA

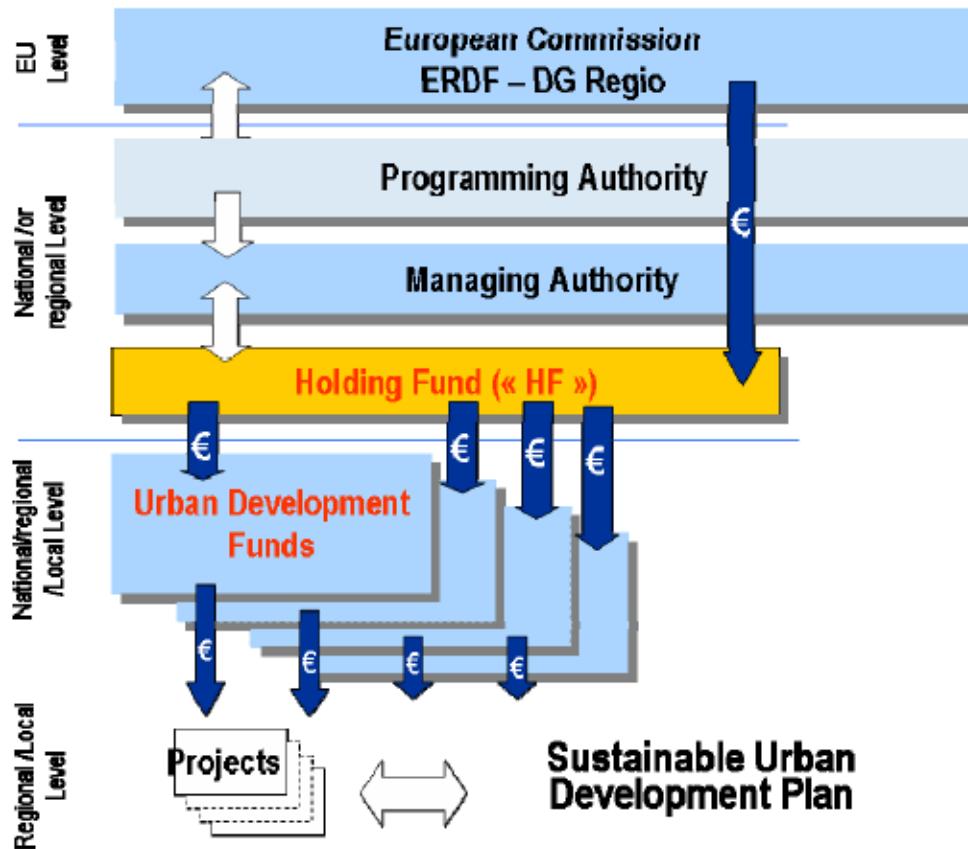
JESSICA is a policy initiative of the EC, supported by the EIB in collaboration with the CEB, designed to help the authorities in the Member States of the EU to implement financial engineering mechanisms to support investment in sustainable urban development in the context of cohesion policy. Other IFI's, as well as the European banking and private sector, are also expected to contribute, and the CEB has already agreed to participate. Under new procedures, MAs in the Member States are allowed to use some of their Structural Fund allocations to invest in UDFs to accelerate investment in urban areas.

JESSICA responds to the request by several Member States and the European Parliament to give special attention to the need for Urban Regeneration and is based on perceived market failure or market imperfection in the urban sector or, more specifically, on the lack of investment funds to finance integrated urban renewal and regeneration projects in pursuit of more sustainable urban communities. JESSICA has therefore been launched, with a view to providing new opportunities to MAs responsible for the cohesion policy programmes in the programming period 2007-13 by:

- ensuring long-term sustainability through the revolving character of the Structural Funds' contribution to funds specializing in investing in Urban Regeneration (UDFs);
- creating stronger incentives for successful implementation by beneficiaries, by combining grants with loans and other financial instruments;
- leveraging additional resources for PPP's and other projects for urban development in the regions of the EU; and
- contributing financial and managerial expertise from specialist institutions such as the EIB, the CEB, other IFIs and financial institutions;

The JESSICA concept has been elaborated, based on the model developed for JEREMIE. Basically, the concept is like in the scheme hereunder:

Figure 1: Basic JESSICA scheme



Source: JESSICA preliminary evaluation study, EIB

Managing Authorities will have the possibility to use part of their Structural Fund allocations to invest in Urban Development Funds (UDFs), which can be defined as local vehicles for managing urban renewal and regenerations projects. In order to facilitate this process, the MAs have the option of using a Holding Fund. In the event that a Holding Fund is used, the MAs will allocate funding to the Holding Fund (HF) – this may be a separately identifiable account or area within an existing entity or an entirely separate legal entity.

The general implementation framework for JESSICA is provided by following EC regulations:

- Council Regulation No 1083/2006
- Council Regulation (EC) No 1080/2006
- Commission Regulation (EC) No 1828/2006.

In order to provide customized implementation framework for countries, Evaluation Studies are commissioned by JESSICA Task Force established within the EIB and supported by the CEB, in which different implementation models are proposed. As an outcome of one these studies a, the following model was considered in which:

- funding from the Structural Funds is contributed as equity in a Holding Fund;
- a Holding Fund itself invests equity in a UDF
- the UDF then finances urban development projects via a range of financial instruments (loan, equity, guarantee).
- finances urban development projects via a range of financial instruments

This model, the “equity model”, was based on existing experience of urban investment particularly in the UK and France, where entities such as the English Cities Fund and CDC already carry out some of the roles envisaged for UDFs. These entities receive equity from investors and aim to provide an equity-type return, although their return is also determined by their urban development objectives, rather than being exclusively driven by the need to maximize profits. In essence, they seek to provide attractive equity returns commensurate with their commitment to urban areas in need of redevelopment.

### 3.1.1 Holding funds

A Holding Fund is a fund set up to invest in more than one UDF. Whilst a Holding Fund is not a requirement for JESSICA implementation, there are several benefits for Member States in having one:

- it allows Managing Authorities to delegate some of the tasks required in implementing JESSICA to appropriate professionals. These tasks include establishing specific criteria for making investments in UDFs, appraising and recommending appropriate UDFs to invest in, negotiating contractual arrangements with as well as monitoring and reporting on the performance of UDFs;
- Member States with a less developed urban investment sector can still take advantage of JESSICA funding immediately, whilst UDFs and qualifying urban investment projects are being established and implemented; and
- Holding Funds allow for JESSICA funds to be combined with other public and/or private sector resources for investment in UDFs.

The terms of conditions for contributions from operational programmes to HF/UDF will be set out in a funding agreement, concluded between the HF/UDF and the Managing Authority. The minimum context of the funding agreement is foreseen by the JESSICA legal provisions.<sup>1</sup>

The management of the HF will include:

- Preparation of the investment policy and business plan of the Holding Fund;
- Cash management of the Holding Fund;
- Marketing of the JESSICA initiative among financial investors and sponsors of potential projects, in collaboration with the MA;
- Calling for expressions of interest from parties intending to become UDFs under the JESSICA initiative;
- Negotiations with proposed UDFs and decision on contributions to UDFs within the criteria set out in the contract with the MA;
- Concluding contracts with participating UDFs;
- Monitoring and reporting to MAs and other contributors to the Holding Fund on all activities, particularly UDFs’ performance and resultant performance of the Holding Fund; and
- Assistance to UDFs on issues of eligibility, state aid, and identification of leverage opportunities.

Where Holding Funds are not used, the relevant elements of the HF role will need to be undertaken by the MA itself.

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<sup>1</sup> Article 43 point 5 and 6, of Commission Regulation No 1828/2006.

### **3.1.2 Urban development funds**

An Urban Development Fund (UDF) is a fund investing in public-private partnerships and other projects included in an integrated plan for sustainable urban development in the form of loan, equity or guarantee.

To be eligible for JESSICA funding, the UDF will need to demonstrate, amongst other things, sufficient competence and independence of management; a comprehensive business plan and budgets for undertaking qualifying projects; as well as sound financial backing.

Whilst not specific on legal form, a UDF can be a separate legal entity, or be established as a “separate block of finance” within an existing financial institution. In such cases, JESSICA funds need to be separately accounted for and clearly segregated from the other assets of that financial institution. UDFs can be established at either a national, regional or local/city level in response to integrated urban development plans, project pipelines and investor interests.

UDFs will themselves be managed by fund managers. The responsibility of the UDF fund managers, within the contractual agreement with the HF, will be to:

- Identify suitable urban development projects;
- Allocate contributions from the UDF to urban development projects;
- Monitor and report on progress to the HF;
- Collect remuneration on the UDFs contributions and distribute returns to the contributors to the UDF; and
- Prepare regular accounts on the performance of the UDF for submission to the HF and other contributors to the UDF.

## 3.2 Advantages of using JESSICA

The general JESSICA framework has several advantages, both for MAs, cities, project promoters and private sector players compared to working with classic ERDF-support.

### 3.2.1 *Advantages for Management Authorities*

<b>JESSICA ADVANTAGES FOR MANAGEMENT AUTHORITIES</b>	<ul style="list-style-type: none"> <li>▪ Establishing or contributing to a HF/UDF through the conclusion of a funding agreement between the MA and the HF/UDF, is considered by the Commission as a statement of expenditures. This results with the faster payments from the EC and generation of interest rates.</li> <li>▪ If a next programme cycle of ERDF (post-2013) might result in less availability for cities in Western Europe, JESSICA could ensure long-term recycling of funds available under the current project cycle.</li> <li>▪ Working with financial engineering instruments through UDFs, creates important leverages both towards the ERDF-contribution, as towards the eventual regional cofinancing.</li> <li>▪ The involvement of international financial institutions such as the EIB and CEB, can bring relevant financial expertise.</li> <li>▪ JESSICA will provide with a viable mechanism for the funding and delivery of large and complex urban renewal projects which, because of their size, are normally beyond the financial capacity of the region itself or local public sector bodies and which are currently not financially attractive to the private sector.</li> <li>▪ It provides the possibility to reply more needs and accelerate investments in Flemish urban areas with the same amount of public resources..</li> </ul>
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### *3.2.2 Advantages for cities & project promoters*

<b>JESSICA ADVANTAGES FOR CITIES &amp; PROJECT PROMOTORS</b>	<ul style="list-style-type: none"> <li>▪ When ERDF-funds are drawn to investments in cities through UDFs, the funds allocated within these UDFs will start to generate interest returns, these interest can increase the available sums for real expenditures.</li> <li>▪ In the traditional way of using Structural Funds as grant, projects with high financial profitability are not eligible for grant financing due to the financial gap criterion (Art 55 of Regulation EC 1083/2006 does not apply to financing of urban development funds). JESSICA will allow for cities to finance a broader range of projects. (Particularly for projects which are not commercially viable but at the same time having internal rate return). This will result with the acceleration of investments in cities and thus, increase the attractiveness of cities.</li> <li>▪ The JESSICA-framework can draw attention, capacity and knowledge of private sector players towards areas or urban investment issues in which they wouldn't be interested under normal market conditions.</li> <li>▪ JESSICA will provide for cities the possibility to early draw down of Structural Fund allocation. Because the total expenditure paid in establishing or contributing to HF/UDF is considered as statement of expenditures.</li> <li>▪ Indeed, investment from ERDF through a UDF also has to comply with the framework of ERDF and eligibility rules. But the revolving money after a first project cycle can be freely spent in new urban development projects (e.g. housing). In case of allocation of other public or private resources into the UDF, they are not subject to these rules.</li> <li>▪ Non eligible components of such projects might be financed through the funding from within IFIs. (EIB/CEB)</li> <li>▪ Risk-reduction for cities to invest in deprived urban areas through the involvement of regional actors and private-sector players.</li> <li>▪ Enabling cities to have a stronger power on investment proposals from private sector players, through direct involvement.</li> <li>▪ Benefiting from the economies of scale on the construction and management costs through addressing several projects needs with one UDF.</li> </ul>
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### *3.2.3 Advantages for private sector players*

<b>JESSICA ADVANTAGES FOR PRIVATE SECTOR PLAYERS</b>	<ul style="list-style-type: none"> <li>▪ JESSICA can create new challenging investment prospects which wouldn't be accessible or feasible under normal circumstances.</li> <li>▪ JESSICA can create strategic partnerships with cities and regions, easing development conditions.</li> <li>▪ Creation of long-term and broad investment vehicles.</li> <li>▪ Impetus to promote a broad and holistic investment focus balancing physical, social, economic, financial and environmental goals which can give competitive advantages in the long run, due to changing markets and society.</li> </ul>
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## **3.3 Legal framework**

Earlier research on JESSICA in Europe, pointed out several legal issues which have to be tackled in a JESSICA implementation. Some issues have gradually evolved within Community legislation. Within the framework of this study, the following documents have been consulted:

- COCOF 08/0002/02- EN: Guidance note on financial engineering.
- EIB JESSICA preliminary evaluation study, January 2007.
- Commission Staff Working Document: State Aid Control and Regeneration of Deprived Urban Areas
- Guide to the Community Rules on Public Procurement of Services
- Regulation No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund.
- Council Regulation No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund Regulation 1080/2006 on the ERDF and repealing Regulation No 1783/1999.
- Commission Regulation 1828/2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund.
- Guide 'The Urban Dimension in Community Policies for the period 2007-2013'.

### *3.3.1 ERDF expenditure*

Article 56 of the Council Regulation 1083/2006 lists the eligibility rules for ERDF expenditure:

- Expenditure, including for major projects, shall be eligible for a contribution from the Funds if it has actually been paid between the date of submission of the operational programmes to the Commission or from 1 January 2007, whichever is earlier, and 31 December 2015. Operations must not have been completed before the starting date for eligibility.
- Expenditure shall be eligible for a contribution from the Funds only where incurred for operations decided on by the managing authority of the operational programme concerned or under its responsibility, in accordance with criteria fixed by the monitoring committee.
- The rules on the eligibility of expenditure shall be laid down at national level subject to the exceptions provided for in the specific Regulations for each

Fund. They shall cover the entirety of the expenditure declared under the operational programme.

With regard to JESSICA it is possible that PPP or other urban projects in which UDFs invest include components that would not be eligible for Structural Funds assistance.

To ensure a clear audit trail allowing expenditure eligible under the Structural Funds to be distinguished from ineligible expenditure, UDF must maintain a separate accounting system or use a separate accounting code for co-financed expenditure down to the final level of the project.

By way of derogation, as regards financial engineering instruments, the statement of expenditure (including the total amount of ERDF eligible expenditure) shall include the total expenditure paid in establishing or contributing to such funds or holding funds.

However, at the partial or final closure of the operational programme, eligible expenditure shall be the total of<sup>2</sup>:

- any payments from urban development funds for investment in public private partnerships or other projects included in an integrated plan for urban development; or
- any payments for investment in enterprises from each of the abovementioned funds; or
- any guarantees provided including amounts committed as guarantees by guarantee funds; and
- eligible management costs.

The co-financing rate shall be applied to the eligible expenditure paid by the beneficiary.

### 3.3.2 Selection of Holding Fund and Urban Development Fund, Compliance with public procurement rules and state aid

Pursuant to Article 44 of the Council Regulation No.1080/2006, in cases where the operations are organised through the HFs, a Managing Authority can implement such operations through

- The award of a public contract in accordance with applicable public procurement law
- Through the award of a grant, defined for this purpose as a direct financial contribution by way of a donation:
  - To the EIB or the EIF
  - To a financial institution without a call for proposal, if this is pursuant to a national law compatible with the Treaty.

Managing authorities must assess whether their contribution to a HF is under the regulation of applicable public procurement law, and whether it is public procurement of services.

As clarified in the Note of the Commission Services on Financial Engineering (COCOF 07/0018/01, Section 2a), a grant to a national (or regional) financial institution for the purposes of Article 44 (b) of Regulation 1083/2006 can be awarded only if national law fulfils the following criteria:

- designates the financial institution in question;
- presents public policy objectives justifying the direct award of a grant to it;

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<sup>2</sup> Article 78 of Council Regulation 1083-2006

- justifies the existence within this financial institution of the expertise necessary for the successful accomplishment of the Holding Fund tasks

Section 2b of same note, clarifies that Managing Authority or the holding fund, should examine whether their contributions from operational programmes to specific financial engineering instruments would correspond to public procurement of services governed by the EC or national public procurement law.

Guidance Note on Financial Engineering (COCOF) 08/002/02 (Section A. 1.2) clarifies the distinction of a grant from a public procurement and lists features of public contract and grant.

The conditions for contributions to financial instrument other than holding fund, (directly to the urban development fund) are set out in Article 43 of Regulation 1828/2006, and they are further explained in point 2 (b) of COCOF note 07/0018/01 of 16 July 2007.

When the Structural Funds finance operations comprising financial engineering instruments, including those organised through holding funds, a business plan shall be submitted by the co-financing partners or shareholders or by their duly authorised representative.

The business plan shall specify at least the following:

- a) the targeted market of enterprises or urban projects and the criteria, terms and conditions for financing them;
- b) the operational budget of the financial engineering instrument;
- c) the ownership of the financial engineering instrument;
- d) the co-financing partners or shareholders;
- e) the by-laws of the financial engineering instrument;
- f) the provisions on professionalism, competence and independence of the management;
- g) the justification for, and intended use of, the contribution from the Structural Funds;
- h) the policy of the financial engineering instrument concerning exit from investments in enterprises or urban projects;
- i) the winding-up provisions of the financial engineering instruments, including the reutilisation of resources returned to the financial engineering instrument from investments or left over after all guarantees have been honoured, attributable to the contribution from the operational programme.

The business plan shall be assessed and its implementation monitored by, or under the responsibility of, the Member State or the managing authority. The assessment of the economic viability of the investment activities of the financial engineering instruments shall take into account all sources of income of the enterprises concerned.

### 3.3.3 State aid

Contributions to financial engineering measures from the Operational Programme or other public resources as well as the investments made by financial engineering measures in individual enterprises, are subject to the rules on State aid. (Recital 26 of Regulation No: 1828/2006)

The support for urban development projects under JESSICA instruments or (similar instruments) falls under the regulation of Article 87 of the Treaty establishing the European Community Treaty. The JESSICA mechanism will provide support to the urban development project developers using the Structural

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Funds (public funds), so its implementation should be assessed in the light of State aid as well. (The support provided under the JESSICA will not automatically constitute a breach of state aid prohibition, if the support will be provided in compliance with market conditions)

Regeneration of deprived urban areas encompasses a wide spectrum of measures: for example, measures to promote entrepreneurship, employment, community development, rehabilitation of natural and built environment, preservation and development of historical and cultural heritage.

For some of these measures public spending will be necessary, some of which may constitute State aid in the meaning of Article 87(1) of the EC Treaty. Thus any public support aimed at urban regeneration and development must comply with the procedural and material EU State aid rules applicable at the point of time when the public support is granted.

However, as a regeneration process is multi-faceted, the Commission appreciates that different Member States tackle regeneration problems in different ways: they may wish either to invest directly in regeneration schemes or decide to also involve the private sector. The approach to regeneration from a state aid point of view must therefore bear this in mind and allow room for manoeuvre.

Therefore, for the time being, the current state aid rules – applied by and enriched through extensive cooperation between Member States and the Commission – deliver the necessary flexibility to accommodate all differing and innovative measures in a field that is constantly evolving.

In assessing state aid implications in PPPs, the Commission generally considers the following to be essential:

- The arrangements for financing the PPP may or may not result in a transfer of state aid to one or more of the private partners. State aid could be involved if there is over-compensation of the costs of the private partners.
- For all types of PPP's, private partners must be chosen in accordance with EC rules on public procurement, where these rules apply. A properly conducted tender procedure will provide reasonable assurance that private partners will be remunerated in line with market conditions. In the absence of a tender procedure, the Commission will look at the detailed arrangements of the PPP and the safeguards put in place to avoid over-compensation in order to determine if state aid is involved.
- The contractual arrangements between the parties must be compatible with community anti-trust rules (i.e. conditions in a PPP as regards the prices to be charged to consumers).

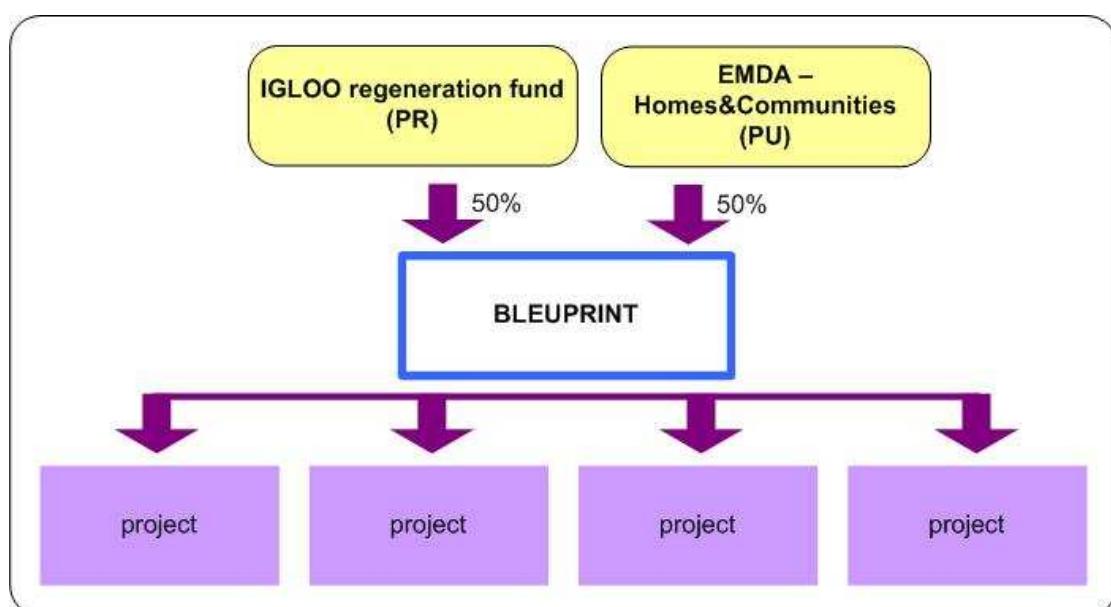
In the regeneration field, the Commission's track record demonstrates that the state aid regime can deal with challenges arising in regeneration projects. Presently, there are a number of possibilities to support regeneration either through a direct application of Article 87, in particular Art. 87 §3c of the Treaty, or through horizontal state aid rules, i.e. Block exemptions, Guidelines for environmental protection, Guidelines for risk capital, etc...

### 3.4 Documentation of using specialised fund-strategies ("JESSICA-like") in Europe

#### 3.4.1 Blueprint Model UK

Blueprint is a Property Development Company formed in 2005 following a competitive procurement process by the East Midlands development agency and English Partnerships. As the figure hereunder illustrates, Blueprint has 3 shareholders: IGLOO, EMDA and the Homes and Communities Agency (former English Partnership). IGLOO is a private regeneration fund and has 50% of the shares of Blueprint. The remaining 50% of the shares are in public hands and are equally divided between EMDA and the Homes and Communities Agency. Within the structure investment, ownership, risk, profit and control are all shared 50/50 between the public and private partners.

*Figure 5: BLUEPRINT model*



IGLOO, the private partner, has been described by the United Nations as "the world's first responsible real estate fund". It is funded by a number of major institutional and socially responsible investors. It is a socially responsible investor founded on four principles:

- good design
- environmental sustainability
- social progress
- happiness and well-being.

Blueprint is governed by a Board of 4 directors, representing each partner's interest. It is funded by a mix of equity and debt. The public sector contributed property assets (buildings/ land) and some cash. The private sector contributed the equivalent in cash. Blueprint focuses on projects where the mainstream private sector might struggle to deliver the desired outcomes. All the projects are in partnership with local governments. That way it brings together national, regional and local governments in delivery partnerships with the private sector.

Some projects that are realised by BLUEPRINT or currently in preparation:

### **Green Street Nottingham**

Blueprint is working with Nottingham City Council to create a showcase, eco-housing development on the fringes of Nottingham city centre.

With award-winning architects, Marsh Grochowski, appointed following a national design competition, Blueprint hopes to lead the way in providing commercially viable eco-housing conforming to the principles of the new Code for Sustainable Homes.



### **Nottingham Science Park**

Nottingham Science Park is one of the first developments by BLUEPRINT. The site was originally acquired by EMDA and has been put into BLUEPRINT.

The development comprises a 6.000 m<sup>2</sup> learning centre for Toyota and 5.000 m<sup>2</sup> of speculative development. Further developments will be done turn-key on demand. BLUEPRINT is doing both site development and real estate development in this scheme, because most of the value is created within the real estate.

The project is also partly funded by traditional ERDF-grants.



### **3.4.2 BNG-OPP ("ontwikkelings- en participatiebedrijf publieke sector") (NL)**

OPP is a subsidiary of BNG ("Bank van de Nederlandse Gemeenten"-Bank of the Dutch Municipalities). OPP is concentrating on facilitating public sector players in larger spatial developments by equity participations in project SPV's and eventually taking over the project management of these projects. Next to financial investment in projects, OPP can also take over the operational management and development of the project.

In contrast with the Blueprint-model, OPP is an open-fund model where project parties can apply for collaboration and funding.

OPP offers expertise to its project partners, within financial engineering and process organisation:

- Feasibility analysis and risk analysis
- Financial analysis: land exploitation model, project finance, arrangements,...
- Risk management
- Project and process management
- Administrative management
- PPP-arrangements

OPP uses three main investment criteria for funding a project:

- 1 or more local public parties (cities, municipalities, provinces,...) participate in the project
- Public shareholders (local public partner + OPP) control at least 50% of the development SPV
- The project is feasible: if this is not sufficiently clear, OPP can do feasibility analysis on a consulting base.

Projects initiated with OPP follow a structured approach:

- Feasibility analysis: this can be a quick scan or a more elaborate feasibility analysis, depending on available information

- Collaboration covenant: OPP and the public partners sign a collaboration covenant, stating the roles of both parties. In most cases this also leads to the creation of a separate legal entity, in order to structure the risk management.
- Organisation structure: at any phase of the project, the process, the financial status and the risks can be clearly reported. Besides a structured deliberation is organised between participation public and private parties.

Some examples of projects executed by OPP:

#### **Port development Harlingen**

Development Agency Westergo, invested 36 Mio of euro in the development of a new industrial port in Harlingen (new docks and 50 ha's of industrial sites). The investment is structured around an equity participation and a loan:



- A loan by BNG of 24 Mio of euro – interest of 7%
- Equity participation by OPP of 6 Mio of euro – 12,5% expected return on equity
- Equity participation by local authorities of 6 Mio of euro – 6% expected return on equity

Besides, also 12 Mio's of euro of grants were applied.

#### **Marina development Drimmelen**

Development SPV marina Drimmelen: investment of 15 Mio of euro in the development of recreation and tourism in Drimmelen. The program comprises 300 holiday cottages, a themed activity zone, retail and leisure. OPP accumulated the equity of 2,5 Mio of euro next to a loan of 9 Mio of euro.



## 4 THEME 1: THE OPPORTUNITY FOR JESSICA IN FLANDERS

<b>Research objective 1</b>	To establish the rationale for and financial feasibility of using JESSICA in the Flemish Region
<b>Research question 1</b>	Reviewing the existing instruments for Urban Regeneration in the Flemish Region, such as different funding and support mechanisms for city development, existing investment delivery vehicles/structures,..
<b>Research question 2</b>	General evaluation of the “planning” environment and specific spatial context & development imperatives, i.e. experience with and increased competence building in “integrated urban development plans in Flanders”.
<b>Research Question 9</b>	Recommended possible utilisation of Structural Funds for the JESSICA initiative based on the current state of implementation and fund allocation commitments of the Flanders Operational Programmes. Examine how JESSICA mechanisms could be embedded in the existing OP procedures and commitments and identify costs and advantages to key stakeholders such as Managing Authority and cities, compared with continued reliance on grant funding.

### 4.1 Introduction: using JESSICA to cover market and investment gaps in urban investment

Successful cities are cities that manage to orchestrate an intelligent mix of resources such as:

- Innovation & creativity
- Qualitative infrastructure
- Efficient governance
- Human capital
- Ecological base
- ...

In the realisation of this success, several investment gaps can exist. The importance and relation between these can vary from location to location:

- Capital gaps
- Knowledge (skills, management) gaps
- Institutional framework gaps
- Collaboration gaps (communication, leadership, trust)

It is clear that the ambition of JESSICA is to bring a holistic approach on these gaps.

Market and investment gaps on the project level can exist for several reasons and in different fields. Generically, the following reasons can be indicated:

- The project doesn't have enough revenue potential in order to cover investments and running costs

- the project does have enough revenue potential, but important risks exist on:
  - the level of revenues
  - the evolution of the market
  - the project cost
  - the duration of the preparation (planning & building permits,...)
  - the composition and complexity of the project
  - ...

In the first group of projects, grants will be necessary to realise the project. Politics decide on the desirability to cover these gaps with public funds. Traditionally, also for the second group of projects, grants are used to lower risks: a buffer on the cost side, an impetus for quality that can make the project more attractive for the market, a public involvement,...

Specifically in this last group, JESSICA could play a role:

- The intelligent mix between financial engineering instruments should create an attractive risk-return for private investors.
- The high "co-productive" bond between public and private players should create strong public involvement, taking away uncertainty on the planning and political context.
- Bringing together public and private expertise and knowledge can make projects more "intelligent" by creating better balance between costs and revenues or by controlling or taking away certain risks.

## 4.2 Cities in Flanders

The urban policy in Flanders is based on a concept created in the Flemish strategic spatial development framework ("Ruimtelijk Structuurplan Vlaanderen"). This framework was adopted in 1997.

An important layer of this strategic framework is the difference between urban areas and rural areas. The objective was formulated that urban sprawl had to be brought to a standstill, so that both cities would be reinforced and the character of rural areas would be preserved.

Cities were listed as follows:

- **2 metropolitan cities:** Antwerp (472.000 inhab.) and Ghent (237.000 inhab.)
- **11 regional cities:** Aalst, Brugge, Hasselt, Genk, Kortrijk, Leuven, Mechelen, Oostende, Roeselare, Sint-Niklaas en Turnhout (number of inhab. ranging between 40.000 and 117.000)
- **Small towns** (number of inhab. ranging between 12.000 inhab. and 46.000):
  - Well-equipped small towns: Geel, Dendermonde, Lier, Ieper, Oudenaarde, Tongeren, Vilvoorde, Sint-Truiden, Tielt, Halle, Eeklo, Knokke-Heist, Lokeren, Aarschot, Tienen, Herentals, Diest, Mol, Ronse, Deinze, Waregem
  - Sufficiently equipped small towns: Lommel, Geraardsbergen, Veurne, Maaseik, Zottegem, Wetteren, Mortsel, Boom, Torhout, Ninove
  - Underequipped small towns: Brasschaat, Maasmechelen, Menen, Beveren, Asse, Heist-op-den-berg, Bilzen, Poperinge, Blankenberge, Izegem, Diksmuide, Bree, Neerpelt-Overpelt

All over, we can state that cities in Flanders are rather small with no city larger than 500.000 (France has 9 cities larger than 500.000 inhab.). This is also reflected in the presence of Flemish cities within the "Urban Audit": only Bruges, Antwerp and Ghent are present in this benchmark of over 321 cities, all in the second league of specialist poles.

- 
- Bruges: visitor's centre
  - Antwerp: gateway
  - Ghent: research centre

Besides this typology, the spatial policy framework also stated that cities are bigger than administrative boundaries and introduced the concept of "urban areas". For each city in Flanders this urban area had to be defined. Besides the urban areas around the Flemish cities, an urban area was also identified around the Brussels' Capital Region (the "Flemish urban area around Brussels").

In 2000, the "Flemish urban policy" was structured around the concepts of the strategic spatial planning document:

- **13 "central cities"** (= 2 metropolitan cities + 11 regional cities) can benefit from the "Urban Fund" ("Stedenfonds") to tackle specific urban issues. (see further for more details on the Urban Fund). Besides the Urban Fund also sponsors the Flemish Community initiatives within the Brussels Region.
- **13 central cities + provincial towns** (selection of small towns: Aarschot, Deinze, Dendermonde, Diest, Eeklo, Geel, Halle, Herentals, Ieper, Knokke-Heist, Lier, Lokeren, Mol, Oudenaarde, Ronse, Sint-Truiden, Tielt, Tienen, Tongeren, Vilvoorde and Waregem) can benefit from "Urban Renewal Project-grants" to subsidise strategic urban renewal projects.

### 4.3 Overview of existing urban renewal policies

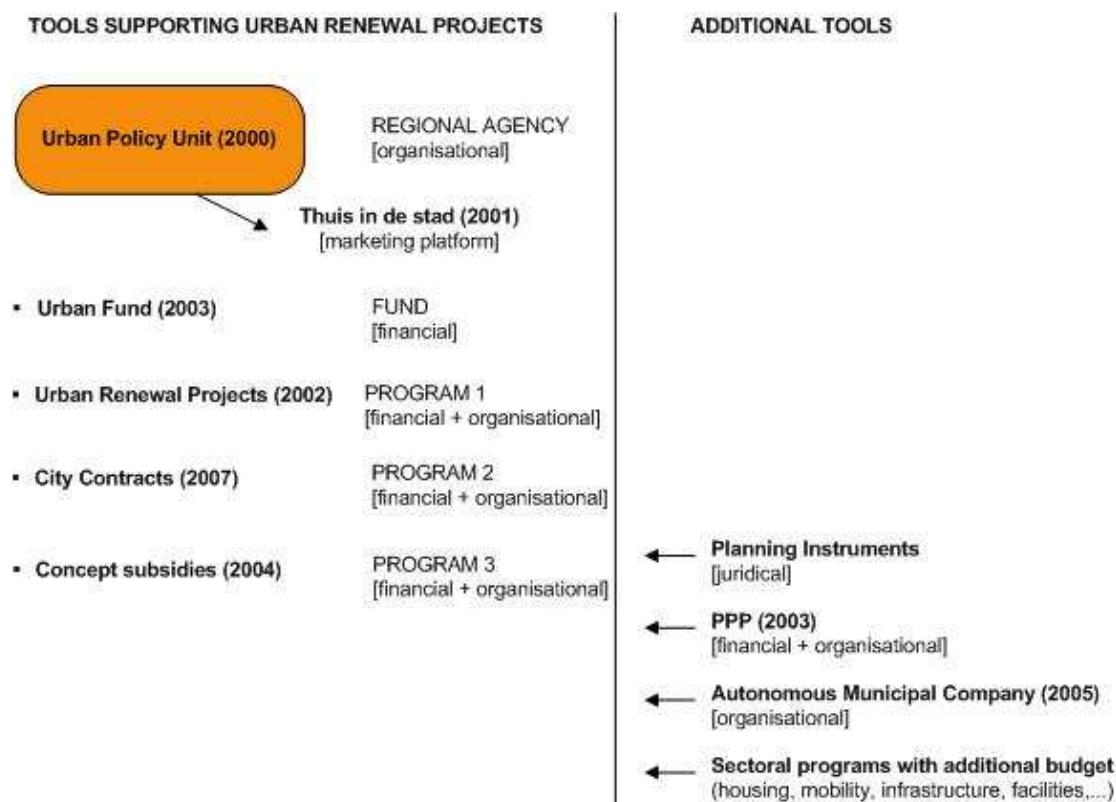
Urban Renewal and urban development policies are structured both on national, regional and local level:

- Federal Urban Policy (national)
- Flemish Urban Policy (regional)
- Local policies

Besides the specific urban policies, also some other specific tools and instruments in urban development are highlighted.

#### 4.3.1 Federal Urban Policy

Figure 6: Overview tools regarding renewal project on a national level



#### Urban Policy Unit

The Urban Policy Unit (Cel Grootstedenbeleid) is the body that implements the federal Urban Policy. It coordinates the policy in every sense, develops high expertise on urban phenomena and consults with other urban partners for specific projects in the partner cities they work in. The Unit applies a lump sum financing system that obliges cities to realize pre-agreed objectives via innovating projects in municipal problem areas. Initially, the Urban Policy Unit was directing its efforts towards the five largest cities of the country (Antwerp, Ghent, Liege, Charleroi, Brussels agglomeration). In 2001, its target group was broadened, with cities with minimal 60.000 inhabitants (Mons, La Louvière, Seraing, Ostend, Mechelen, Sint-Niklaas).

The composition of this target group is contested by other regional towns not benefiting from support of the Federal Urban Policy

Today, discussion exists whether this service should continue to exist at Federal level, as multiple issues are raised over competence division between the Federal and the regional level (e.g. housing is a regional competence)

#### City contracts

At the start of the Urban Policy, a lump sum financing system was set up with one-year agreements between the federal state and local authorities. Since July 2003, this has been changed into three-year agreements. This long-term character gives the cities more possibilities to realize a long-term approach and extend their contracts around a number of strategic objectives. Five strategic objectives were established for the first multi-year program (2005-2007). The cities were asked to choose between the following objectives, based on their needs:

- integrated development of the areas in the city

- a vital local economy and durable jobs in the neighbourhood
- strong social cohesion; a healthy city in a healthy environment
- a better housing supply.

The financial resources the eligible cities can rely on are assigned by way of city contracts between the Urban Policy Unit and the local authority. The main objectives local projects or programs have to comply with are: improving the quality of life and living conditions in cities as well as promoting security and reviving economic activity. The total budget for the city contracts in the multi-year program 2005-2007 amounted to EUR 128,652,000.

### **Housing contracts**

Since January 2004, the Urban Policy Unit received extra funds for developing a housing program, through the so-called housing contracts between the Urban Policy Unit and local authorities. The Government is thus trying to support a municipal policy, regarding housing with the benefit of social integration and coherence. The first multi-year contracts entered into force in January 2005 and ran for three years. Financial aid was made available for investment projects that fit in with a wider, integrated social context. In the latest evaluation, it has been decided to integrate City contracts and Housing contracts into one single contract between a city and the Federal Government, which is the case for a new 1-year contract on 2009.

### **Fiscal tools**

The Federal state controls most of fiscal instruments. The fiscal income of the authorities is first accumulated on Federal level, before being forwarded to regional and local authorities. Some specific measures exist within different fiscal systems on investment in cities:

- Income tax: a limited incentive exists within the income tax for natural persons. Renovations to houses can be deducted from taxable income, if the house is situated in certain perimeters within the largest Belgian cities.
- VAT: generally, so not defined within certain perimeters, a lowered VAT-rate is applicable to renovations of private houses older than 25 years. (6% instead of 21%)

In recent history propositions have been made to further reinforce the attractivity of cities to invest, which have not been put into practice:

- General reduced VAT-base for housing in deteriorated areas in cities (e.g. perimeters used for the fiscal advantage in the income tax).
- Activated management of "fiscal incomes" of real estate: property taxes in Belgium are based on "cadastral incomes" a sort of fictive income of a property. Through active management of the values of these cadastral incomes (and communication of this action), acquisition and possession of real estate in certain areas could be made more attractive.

### **Land Policy tools**

A series of traditional land policy tools can be applied to prepare or facilitate an urban renewal scheme. These are valid in all three regions although regional legislation may impose additional conditions for their implementation.

*Table 2: Overview of land policy tools*

<b>Alignmentplan</b>	(rooillijnplan, plan d'alignement)
<b>Land consolidation and re-allotment</b>	(ruil- en herverkaveling, remembrement)
<b>Pre-emptive right</b>	(voorkooprecht, droit de préemption)
<b>Expropriation</b>	(onteigening, droit d'expropriation)
<b>Land lease</b>	(erfpacht, emphytéose)
<b>Concession</b>	(concessie, concession)

### **Ownership of land**

The Federal Government controls several important public services with sometimes important land stocks in cities:

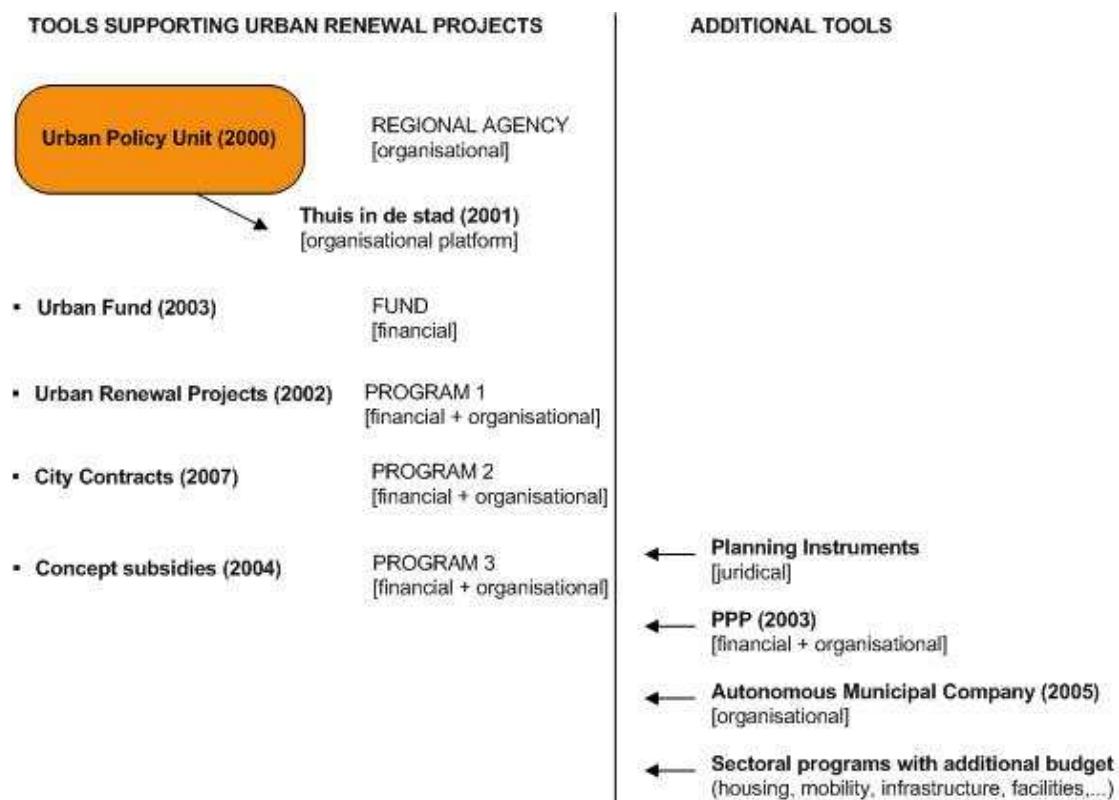
- Defence: recent reorganisations have resulted in large disinvestments in buildings and land. Several cities acquired these sites to initiate urban development projects, such as the former Military Hospital sites of Antwerp and Ghent
- NMBS-Holding (Belgian Railroad Company): historically, the Belgian Railroad Company has important land stocks, especially around station buildings. With the arrival of high-speed trains and the new interest in public transport of the last 20 years, some of these land stocks became extremely strategic for the development of several large-scale urban projects, e.g. in Leuven and Antwerp, other projects are in preparation. Given the fact that some of this land stocks are balanced with the historical debt of NMBS, the valuation and the future program of these sites is extremely sensitive and leads to discussions between cities and NMBS. These land stocks are now structured both in the infrastructure daughter of NMBS-Holding, Infrabel, as under the Holding itself (FSI).
- Building and Facilities service (Regie der Gebouwen): this is the facility management agency of several federal services such as justice, finance, the police,...

Specifically, the first two examples indicate the strategic role of these land stocks for urban development projects.

<b>OPPORTUNITY FOR JESSICA</b>	<ul style="list-style-type: none"> <li>▪ Taking into account that the Federal Urban Policy is only open for a limited group of cities in Flanders and the strong thematic focus on poverty and social exclusion, no direct involvement of the Federal Urban Policy should be foreseen.</li> <li>▪ However themes of the Federal Urban Policy could be taken into account in specific projects or portfolio's.</li> <li>▪ A Flemish urban development fund could also play a role as intermediate body in negotiations with larger land owning bodies on the Federal level.</li> <li>▪ Further elaboration of specific fiscal measures within deprived areas in cities, could increase appetite of private investors to invest in these areas.</li> </ul>
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#### 4.3.2 Flemish City Policy

Figure 7: Overview tools regarding urban renewal projects in the Flemish region



#### Urban Policy Unit

In 2000 the **Urban Policy Unit** (Cel Stedenbeleid) was established on the level of the Flemish region. In 2006, the unit was absorbed in the Agency for Internal Government. Among others, new policy tools were proposed to help local authorities cope with complex urban renewal projects (both in financial and organizational way). In order to monitor the socio-economic context of cities and results of urban policies, a City Monitor for the 13 central cities has been developed. The Urban Policy Unit controls the following funding instruments in cities:

- Urban Fund (Stedenfonds)
- Urban renewal projects
- Concept subsidies

#### City fund

Next to the Municipality Fund (Gemeentefonds), which serves the bulk of Flemish municipalities, an **City Fund** (Stedenfonds) has been set up to provide the biggest Flemish towns and cities with financial support for conducting a sustainable urban policy. The City Fund, with an annual budget of approximately 100 Mio of euro, came into effect on 1st January 2003. Its main goals are to increase the liveability of the cities both at city- and neighbourhood level, to combat socio-economic polarisation; and finally to increase the quality of democratic management. The City Fund is destined for the main Flemish cities Antwerp and Ghent, for the regional towns Aalst, Bruges, Hasselt, Genk, Kortrijk, Louvain, Mechelen, Ostend, Roeselare, Sint-Niklaas and Turnhout, as well as the Commission for the Flemish Community in Brussels. The Urban Fund works through policy covenants between the Flemish Government and a city and is established for 5-year periods. In 2009, amounts to 124 Mio of euro.

## Urban renewal projects

The 'urban renewal projects' is an additional tool that offers a financial and operational support to cities in the implementation of well-thought **Urban Renewal Projects** (Stadsvernieuwingsprojecten) with a multifunctional character. The focus of this tool lies on the transformation of urban wastelands, on projects that have a leverage power in a neighbourhood, or city area and that can initiate a new dynamic.

Every year, each city can submit dossiers of such integral and dynamic urban renewal projects. The urban renewal project should be executed in public-private partnership. Urban Renewal projects are always assessed by an independent jury on 7 criteria:

- It should be an innovative project, which can be interpreted in multiple ways (way of collaboration, focus of the project, combination of policy challenges,...)
- The project should be strategic and with sustainable impact on the long term. It should be a leverage for future urban development
- A high quality of urban and architectural vision
- The project should integrate both on a spatial as on a functional way: creating new links or missing infrastructures in the city
- An clear approach towards participation with all stakeholders
- An intelligent and feasible PPP-project with a reasonable division of costs, risks and revenues between public and private partners
- A feasible timing and execution

The first call for projects resulted in a selection of 8 projects (budget of 20 million euro). The second call subsidized 9 projects for 19,3 Mio of euro, for the third call the budget is 30 Mio of euro. In the meantime, for this 3rd call, the Flemish Government has allocated a budget of 14,3 Mio of euro to 6 projects, another 8 projects and one reserve project are on the shortlist.

Examples of projects which are partially financed by urban renewal contracts: De Kloef (Ronse,), Military hospital (Antwerp), reconversion of the old industrial estate Brepols (Turnhout).

## Concept subsidies

The concept subsidy has been devised to assist a city administration in reaching a stable project basis and developing an innovative vision for "burgeoning" urban renewal projects. The concept subsidy is only awarded when the town administrations agree with the proposed accompaniment. When awarded, an agreement is made between the concerned local authority and the Flemish Community, which fixes mutual engagements. These subsidies cover early costs for master planning and other preliminary studies (financial, legal,...) and have a maximum of 60.000 euro.

The concept subsidy implies the creation of accompaniment teams on two different levels: a coordination team on the level of the Flemish government and a local accompaniment team. Both teams work together to define along which lines the project should evolve. The funding amounts to a maximum of € 60.000 per project. The budget serves to commission a research by design, to pay for the expenses of experts on public-private partnerships and participation policies and to pay for the external members of the local accompaniment teams. A first half is paid after the agreement has been signed, and the latter half when the Agency for Interior Affairs receives a copy of the expert assignment contracts

A first series of urgent concept subsidies have been awarded in 2004. Meanwhile, a concept subsidy has been awarded to 24 projects in total.



## City contracts

Urban policy asks for an integral policy, in which all other policy areas interact with each other. The start-up of **City contracts** (stadscontracten) between the Regional and local authorities aims at improving the interactions between the various policies (sectors) that may have impact on the urban policy, be it on a regional and local level. The focus of a city contract lies on:

- Efficient procedures (e.g. planning)
- Alignment of investments (between the city and the Flemish Region or between different sections of the Flemish Authority)

Each major city may propose one or two projects for which they seek to deal in an integrated way with other sectoral authorities, be it local or regional level.

Examples of projects under city contracts are:

- The Loop: space for economic activities on the site around Flanders Expo (Ghent)
- Redevelopment of the borders of the Schelde (Antwerp)

<b>OPPORTUNITY FOR JESSICA</b>	<ul style="list-style-type: none"> <li>▪ The <b>quality criteria</b> used in urban renewal projects can be inspiring to use in JESSICA-instruments. However, a public-private portfolio-approach will demand for a new infill and approach towards quality in urban projects.</li> <li>▪ The city contracts have laid an important base for streamlining of public investment. Including a JESSICA approach with public means will enhance efficient delivery, because of "<b>time will cost money</b>"</li> <li>▪ Projects initiated with <b>concept subsidies</b> can be an interesting <b>source of deal-flow</b> for a Flemish JESSICA(-like)-framework.</li> </ul>
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### 4.3.3 Other sectoral policies

Besides the integrated approach of the Flemish Urban Policy, some other sectoral policies put specific attention to the urban theme:

#### Economy

- **Brownfield development:** Confronted with complex development questions, the Flemish Government adopted a new legislation on brownfield redevelopment. This legislation should offer new incentives to private and public developers in order to enhance the volume of brownfield development in Flanders. Brownfield development should always be "made to measure", a brownfield "covenant" will state all liabilities of participating (investing, permit authorities, grant authorities) parties. Some administrative advantages are given:
  - Easier property transfer
  - Easier development permits
  - Different expropriation possibilities

Besides, PMV (Flemish Investment Body, see further) is asked to take actions in this field. Brownfield development is seen as highly important, because it is

seen as an important way to reduce development pressure on the open space in Flanders. The allocated budget within PMV on brownfield development is about 15 millions Euro.

- **Grants for economic development:** since long a grant system exists for the development and redevelopment of activity zones. Where historically the emphasis was on economic development and creating of supply, now more attention goes to qualitative aspects such as CO<sub>2</sub>-neutrality. Investments in infrastructure are eligible, but also in buildings created with specific purposes (incubators, multi-tenant buildings for small enterprises,...). These grants are available for all initiatives in Flanders (so not only for urban regions) and are differentiated between brownfield and greenfield developments (the first benefitting from higher remittances).

### Culture and tourism

Culture and tourism are two separate sectors in Flanders. Little structural investment schemes exist in both sectors. However, over the last years a lot has been invested from both sectors in cities:

- Some new cultural infrastructures have been created in several cities: MAS and deSingel in Antwerp, Concert hall in Bruges, SMAK in Ghent,...
- The Flemish tourism office highly focuses on the historical towns of Flanders for the international promotion of the region.

### Housing

Grants and public investment in the housing sector are highly focused on social housing. Historically a lot of social housing has been created in cities. A tendency now exists to put more emphasis on the periphery of cities to create social housing. But we see that social housing has been an important investor in recent urban development schemes, e.g. "Zuurstof voor Brugse Poort" in Ghent, the nord area of Antwerp,...

### Infrastructure

Regional grants and contributions in infrastructure are organised through so-called Modules, permitting made-to-measure grants for specific infrastructure types. Some examples:

- Module 11 and 13: creation of bikeways
- Module 14: enclosure of economic, service and retail zones
- Module 10: infrastructure around schools
- ...

Of course this grants work with yearly budgets and priorities that are politically decided, which makes it not always easy to align them with a proposed project phasing.

Besides grant finance, some alternative-finance PPP have been set-up over the last years:

- **Mobility masterplan Antwerp:** a large portfolio of mobility and infrastructure works around Antwerp. The tollage on a new closure of the Ring should partially finance other measures. For this purpose a separate management and investment body is created: BAM
- **Via-invest:** alternative finance from some priority infrastructure projects. The project is structured through PMV.

### Urban planning

- **grant for strategic coordination:** public actors can demand grants for the realisation of projects that contribute to a better spatial quality as an execution of the Spatial Planning Framework (Ruimtelijk Structuurplan

Vlaanderen RSV). Grants can be used to cover headcount for professional project coordination, but also for acquisition of sites. For the call of 2008, 2,6 Mio of euros was made available.

<b>CONCLUSION TOWARDS JESSICA</b>	<ul style="list-style-type: none"> <li>▪ Some funding-practice (e.g. brownfield covenants) are already very compliant with the JESSICA-framework.</li> <li>▪ As it can be expected that also by using JESSICA-instruments, some gap-funding will still be necessary, the JESSICA-framework could <b>enhance responsibility for efficient regional gap-funding</b> (coordination of different sector grants)</li> </ul>
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## 4.4 Integrated urban development within Flemish cities

Through the new legislation on spatial planning, cities have had many incentives to make advanced planning of urban development:

- **Structure plans:** the compulsory redaction of a structural plan for future developments forced cities to go into a process of strategic planning of their territory. Most structure plans contain concrete objectives on:
  - Housing planning
  - Activity zones: greenfields, brownfield redevelopment
  - Infrastructural interventions
  - Prioritisation of these actions
  - First spatial visions for detected projects/zones
  - Division of tasks between public actors
- **Delimitation of urban areas:** the Flemish Government is working on the delimitation of "urban areas" in contrast with "rural areas". These areas are larger than administrative borders of cities. This exercise results in a demarcation line, but more importantly in zoning plan changing, giving new chances for housing developments, mixed use developments, activity zones,...

These legally compulsory actions/documents gave reason to come to more elaborate services within cities on spatial planning.

## 4.5 Market failure in urban development in Flanders

### 4.5.1 Large-scale urban wastelands

Most Flemish cities count some important and large-scale "urban wastelands" which are caused by the de-industrialisation of the city. These sites are characterized by:

- Out-of-date infrastructure, which hinders proper mobility
- Soil contamination
- In many cases, enclosure by residential areas, in many cases deprived areas
- A number of large properties, private and semi-public.

However since long an important axis in both urban planning and city policy, many of these projects only slowly get started:

- Petroleum Zuid Antwerp: a large-scale former petroleum harbour and industry, highly contaminated. The area was one of the major investment

priorities of the URBANII-program Antwerp-Zuidrand (2000-2006). Until now, no major investments have been done, mainly due to lack of public-public agreements and changing political visions on the future program of the zone.

- Arsenaal Mechelen: a strategic development concept has been elaborated in 2002 for this area of 175 ha at the south-east-side of the inner-city of Mechelen. Development only slowly can start, because it is very dependent of public investments in main infrastructures. Only recently (2008) some political engagements have been made to start up a first phase.

Following reasons can be given:

- **Unrealistic master planning:** when master plans are made without clear financial context or framework, lots of master plans turn out unrealistic. In many cases this becomes clear after a long agreement process, which makes things even more difficult.
- **Lack of political agreements:** many projects are in the middle of the political playground, with short-term objectives and changing priorities.
- **Limited amounts of grant funding:** when projects are dependent of grant-funding for their realisation, the timing of the realisation becomes subject of availability of public funding.
- **Attitude of public owners:** public-public agreement between public parties is in many cases difficult to achieve. Some public partners (e.g. semi-autonomous government bodies such as W&Z and NMBS are driven by profit maximization on land portfolios whereas cities seek for objectives such as green areas, quality of materialisation,...)
- **Market:** lots of opportunities in "easier" developments don't put much pressure of private developers on these sites.

<b>CONCLUSION TOWARDS JESSICA</b>	<ul style="list-style-type: none"> <li>▪ The JESSICA-framework could possibly <b>enhance public-public cooperation and agreement</b>, because public partners have to work in a more stringent (financial) context</li> <li>▪ If JESSICA, because of <b>advantageous finance conditions</b>, can make projects less dependent of public grant-spending, on which high uncertainty on timing exist.</li> <li>▪ Besides a financial framework, a Flemish JESSICA structure should also offer a <b>knowledge base</b> on project development and project management.</li> <li>▪ The JESSICA-framework gives <b>wider eligibility rules</b> for the grant finance.</li> <li>▪ Risk-sharing with private parties could make those projects <b>more resistant to market conditions</b>.</li> </ul>
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#### 4.5.2 *Brownfield development*

The paradox of many underexploited, undeveloped, and in many cases polluted sites, but a clear demand for sustainable activity zones, led to a new approach on brownfield development. In 2007 a new decree on brownfield development has been installed. This decree gives investors and developers the possibility to conclude a contract with the Flemish government. This contract should ease administrative burden through a "single-point-of-entry". Besides this administrative streamlining, PMV is mandated to act as investor on these projects; a budget of 15 Mio of Euro is foreseen.

Brownfield development should always be "made to measure", a brownfield "covenant" will state all liabilities of participating (investing, permit authorities, grant authorities) parties. Some administrative advantages are given:

- Easier property transfer
- Easier development permits
- Different expropriation possibilities

The redevelopment and sanitation task is estimated at 4.000 to 5.000 ha. The current list of a first round of brownfield developments is estimated to +/- 500 ha. The purpose of the development could be new economic activities, but not necessarily as many of these brownfield became strategic inner-city sites.

This approach is also criticised, mainly on the financial framework. The role of PMV is defined as a market-conform approach. Loss-making projects will not be considered under the current framework. On the other hand, sanitation and development of these loss-making sites could have important returns for society.

This return-driven approach also drives the program of these sites to more advantageous destinations, at the expense of an economic/industrial activity, which doesn't solve the paradox between high demand for activity zones and the sleeping supply of brownfields.

<b>OPPORTUNITY FOR JESSICA</b>	<ul style="list-style-type: none"> <li>▪ Draining ERDF-means to brownfield development could give an <b>extra boost to the brownfield covenant program</b>.</li> <li>▪ This brownfield sanitation program closely <b>fits generic priorities of the ERDF-framework</b>.</li> <li>▪ The engagement of ERDF-means will indicate the important priority of this actions, which can lead for a "<b>quick win</b>".</li> <li>▪ It could lead to a <b>brownfield-portfolio-BIS</b>, with specific focus and eventually under-market-return, facilitating more difficult projects.</li> <li>▪ The portfolio of projects benefitting from JESSICA could be limited to some projects with a <b>destination after sanitation of knowledge economy</b>, easing a combination of funds out of priority 1, 2 and 3.</li> </ul>
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#### 4.5.3 Micro-regeneration within deprived neighbourhoods

In contrast with regeneration through the redevelopment of urban wastelands, some areas in 19<sup>th</sup> century neighbourhoods in major towns can only be redeveloped through micro-investments. The reason for this is the highly spread ownership in this areas which makes operationnally difficult and costly to go for large-scale redevelopment.

Some cities have tackled this with strategies based on a revolving fund:

- **Antwerp**: the autonomous development body is buying and renovating properties in deprived neighbourhoods. High importance is given at architectural quality. Renovated properties are sold at market conditions.
- **Ghent**: the autonomous development body is buying decayed and uninhabitable houses on narrow parcels. After demolition, a reallocation is made and the plots are sold ready-for-building at socially-corrected prices.

Both practices show that, in spite of the idea of a revolving fund, the operations are not self-revolving and need supplementary public grants.

<b>CONCLUSION TOWARDS JESSICA</b>	<ul style="list-style-type: none"> <li>▪ Market testing could show if any private interest exists in a mixed fund for this kind of operations.</li> <li>▪ If self-revolving is aimed, some social objectives will have to be revised.</li> <li>▪ Combining this with a broader investment focus in these areas (e.g. some larger development plots) and flexible value-oriented master planning could however lead to results.</li> <li>▪ A UDF could leverage these kind of project to an acceptable return.</li> </ul>
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#### 4.5.4 Thematic investments

Some (urban) activities balance on the boundary of market-conform activities, but are at same time considered as important infrastructures for society and/or the international profiling of a region or a city:

- Touristic accommodation for specific target groups such as youth hostels, campings,...
- Leisure and cultural facilities: music halls, football stadiums,...
- Infrastructures for innovation: incubators, campuses,...

Typically, these investments are highly specific, demanding important know-how, and can be made profitable under specific circumstances, with high involvement of public partners:

- Contribution of land
- Embedding within an attractive urban development scheme
- Joint promotion initiatives – integration in city marketing

For some of these types of developments, the Flemish Government recently took some initiatives:

- DBFM-contract on youth hostels: withdrawn procedure because of lack of interest by private parties for different reasons, also because no suitable structuring was available.
- Reservation of an amount of 50 Mio of euro to invest in multifunctional football stadiums

<b>CONCLUSION TOWARDS JESSICA</b>	<ul style="list-style-type: none"> <li>▪ Some of these types of developments have close fits with ERDF-priorities such as incubators, tourist infrastructure.</li> <li>▪ The use of JESSICA-instruments could give extra financial means to these programs (under the condition of a program revision)</li> <li>▪ A portfolio-approach can lead to economies of scale, given the specific development questions</li> <li>▪ Coupling the thematic objective with a portfolio of land can form an interesting investment object for private parties, if enough openings for optimisation and creativity are kept.</li> </ul>
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## 4.6 The Flemish ERDF-programme

The Flemish ERDF Regional Competitiveness and Employment programme is split up into 4 priorities:

- 1. Priority 1 - Knowledge economy and innovation:** stimulation of the knowledge economy and knowledge transfer, innovation of economic activities and their social utilization.
- 2. Priority 2 - Entrepreneurship:** increasing entrepreneurship in Flanders, with maximal creation of employment and economic growth
- 3. Priority 3 - Spatial-economic environmental factors:** increasing the attractiveness of cities and regions by sustainable upgrade of the spatial-economic environment (infrastructure, mobility, sanitation,...)
- 4. Priority 4 - Urban development:** increasing attractiveness of entrepreneurship and innovation in cities by supporting urban projects.

The total budget of approximately 201 million EUR is equally divided between the priorities: 48 million EUR for each (+ nearly 10 million for TA).

The attribution and beneficiaries of ERDF-funds can vary between priorities:

- In **Priority 1 and 2** there are calls for yearly budget slices. These calls are open to a broad target group of possible project promoters and because supply of grants is controlled, commitment follows a controlled path.
- Within **Priority 3 and 4** project promoters can introduce project proposals on a permanent basis, which explains the higher commitment degree of the program.
- **Priority 3** is limited to public project promoters and cities.

Priority 4 is limited to the 13 central cities and made up out of 2 operational objectives:

- 1. Integrated urban development projects:** these projects should contribute to the economic success of a city and its region. The 13 Flemish 'central cities' (centrumsteden) and the Flemish periphery around Brussels are eligible for ERDF funding under this objective.
- 2. Increasing the urban dynamism in the (big) cities of Antwerp and Ghent.** This objective aims at smaller urban projects at district or neighbourhood level. Only Antwerp and Ghent are eligible for ERDF funding under this objective.

Projects should focus on 4 possible domains:

- Restructuring and reinforcing the urban economy
- Increasing the accessibility of cities and increase of internal mobility within cities
- Higher quality of life in cities
- Tourism and socio-cultural facilities

Project selection for this priority is not organized through open calls for projects. It is up to the eligible cities to come up with project proposals. At first instance, these proposals are evaluated by the central ERDF authorities in Brussels in close collaboration with the local Contact Points (in the different provinces). The final decision is prepared by the Monitoring Committee. This committee is composed with 50% of local actors (cities, provinces,...) and 50% of the Flemish Government. The Flemish Minister for Economy or her representative has the deliberative vote.

Each Flemish minister can decide to co-finance projects, within his/her domain. Promoters can also ask partial co-financing for multifunctional projects. A yearly budget of 5 Mio of euro is available for this type of projects, which resorts under direct control of the Minister of Finance.

The following state has been communicated on budget allocations within these priorities (31-12-2008):

*Table 3: State of play ERDF-budget Flanders 2007-2013 (status jan. 2009)*

	Foreseen	committed		Available	
	Mio €	Mio €	%	Mio €	%
Priority 1: Knowledge economy & innovation	48,2	16,3	34%	31,9	66%
Priority 2: Entrepreneurship	48,2	10,4	22%	37,8	78%
Priority 3: Spatial-economic environmental factors	48,2	38,8	81%	9,4	19%
Priority 4: Urban development	48,2	14,0	29%	34,2	71%
<b>TOTAL</b>	<b>192,8</b>	<b>79,5</b>	<b>41%</b>	<b>113,3</b>	<b>59%</b>

Source: Flemish Agency for Economy

Analysis of the commitment grade of the program learns the following:

- Taking into account the early stage within the program, an important level of commitment of the budget has been realised, mainly because of fast consumption within priority 3.
- Within Priority 4 (Urban development), which seems the most logic source for an ERDF-contribution, a budget of 34,2 Mio of euro is available to date.

Yet, some remarks have to be made:

- Overall the ERDF-program uses an allocation key of 60% of total budget for urban areas and 40% for rural areas. Under the assumption that the whole budget of Priority 4 is allocated to urban areas, the other priorities can only invest in urban areas up to 47% of their budget. Theoretically this limits the Priority 3 investment in urban areas.
- The ERDF-budget is actually classified as 100% non-reclaimable support.
- Without any doubt, cities that are eligible for Priority 4 funding, are anticipating and counting on the Priority 4 grants for projects they have in the pipeline.
- The current ERDF-programme is the result of long negotiations and outbalancing of funding (between priorities, operational objectives, provinces and cities). It would be very delicate to come back on this decision now. Within this legislature (2004-2009), the Flemish Government will not take any initiative to reallocate or revise the available ERDF-budget.
- The actual OP is defined as 100% non-reclaimable support, a JESSICA initiative would cause a revision of this OP. Because of expectations of cities on grant funding of concrete projects, this revision will be politically very delicate.

<b>OPPORTUNITY FOR JESSICA</b>	<ul style="list-style-type: none"> <li>▪ If a JESSICA initiative is embedded within the existing <b>priority 4</b>, a <b>theoretical budget of 31 Mio</b> of euro is available today.</li> <li>▪ Within Priority 4, a JESSICA-initiative will need to be done with a <b>bottom-up strategy</b>, leaving <b>the initiative to local authorities</b>.</li> <li>▪ JESSICA could make the <b>Flemish ERDF-budget more permanent</b>. Next investment periods could be less generous towards more developed economies in the West of Europe.</li> <li>▪ Freeing this budget will lead to <b>difficult political negotiations</b> within the monitoring committee. Therefore, some pilot projects, with a JESSICA-like approach should prove the efficiency of the approach to local parties.</li> <li>▪ For any changes with regard to the focus, budgets, priorities etc, it will be <b>necessary to change the existing OP</b>.</li> <li>▪ Since, JESSICA initiative involves operations in wider sectors and <b>it might also cover investments in knowledge economy and innovation</b> as well entrepreneurship, the establishment of a specific UDF might be an alternative in the realisation of these priorities.</li> <li>▪ Supposing that a JESSICA-initiative would concentrate on development of research centres/knowledge campuses, this could have certain logic within priority 1.</li> </ul>
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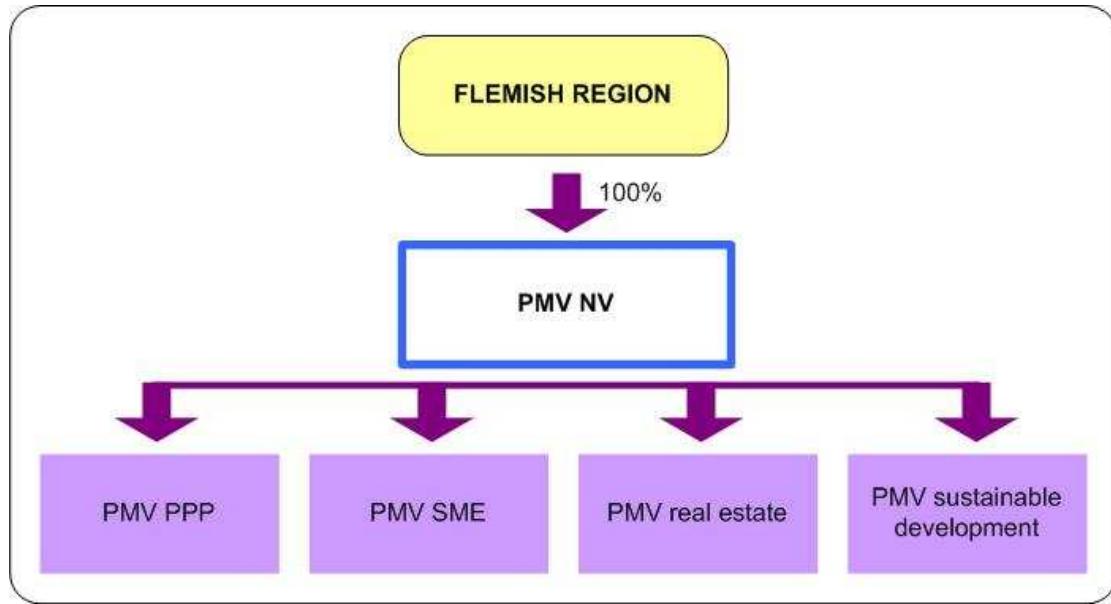
## 5 THEME 2: ACTORS WITHIN THE FIELD OF URBAN RENEWAL

<b>Research objective 2</b>	To identify the key market participants for JESSICA from public and private sectors in urban renewal as well as the existing investment structures
<b>Research question 6</b>	Review of potential partners/vehicles in the following sectors: Flemish and international banks and other commercial financial institutions, international financial institutions (including EIB and CEB), public authorities (including cities and municipalities), public agencies and other public institutions (including the Office of the Flemish Minister for Urban Policy, City Fund / urban regeneration companies, development agencies, etc.), investment funds of various types, property developers, NGOs and other relevant parties. Recommendations on how to integrate and best select these different actors/stakeholders will also be required within the current legal framework, including law on government procurement.

### 5.1 Public actors

#### 5.1.1 PMV

PMV ("Participatiemaatschappij Vlaanderen"): the PMV is the investment body of the Flemish Authority, with 1 shareholder, the Flemish Region. PMV was created in 2001 through a restructuring of historic government equity participation companies. Basically, the PMV started with the assets of former participations in the steel and textile sector. The creation of PMV was also taken as an opportunity to restructure several historic government participations in real estate developments (e.g. business parks), infrastructure, corporate finance participations,...



PMV NV is set up as a holding structure with different subsidiaries. Depending on their final goal, subsidiaries can take different legal forms: project subsidiaries, SPV's, etc. These different legal structures allow for an optimal fit with the context in which the subsidiary operates. The board of directors of the PMV holding is guiding and defining the strategic objectives of all the subsidiaries. The following table gives an overview of PMV subsidiaries in the first degree. These subsidiaries might again have several daughters.

*Table 4: Participations of PMV*

Name of participation	% of shares	Balance (Mio of €)
Arkimedes Management	100%	2
Textiel Vlaanderen	100%	3
Waarborgbeheer	100%	3
Novovil	99,99%	7
PMV RE Vinci	99,99%	20
Vlaams Innovatiefonds	99,99%	7
GO IPZ	51,00%	n/a
Via-Invest Vlaanderen	51,00%	24
Nautinvest Vlaanderen	50,02%	1
Reproductiefonds Vlaamse Musea	49,02%	0
VITO	22,99%	67
Cargo B airlines	23,75%	18
Capricorn Cleantech Fund	21,49%	11
Any Media	18,0%	0
Anygma	7,33%	n/a
Arkimedes-Fonds	n/a	108

PMV is structured around 4 business units:

- PMV SME: is facilitating finance of SME's by different products such as equity finance and guarantees. It has specific products for enterprises in the cultural industry or creating innovative technology.

- PMV real estate: this business units has six main activities: setting-up of an investment vehicle in rental houses, real estate operations for the Flemish Government, urban area development, participations in PPP on cultural and historic buildings, participations in activity zones and incubators, brownfield development
- PMV PPP: is coordinating the larger PPP-operations from the Flemish Government such as Antwerp Airport, PPP road infrastructure, PPP school infrastructure, PPP sports infrastructure,...
- PMV sustainable development: is working both by participations in Flemish environmental development organisations and funding/financing activities focussing on clean technology and innovative energy deliverance.  
These units cluster expertise and knowledge whereas the subsidiaries are used as financial vehicles.

At this moment, PMV is not directly involved in ERDF-programs. However, on one project (Petroleum Zuid Antwerp), PMV is now recognised as co-promotor by ERDF.

PMV is working with a large range of financial instruments:

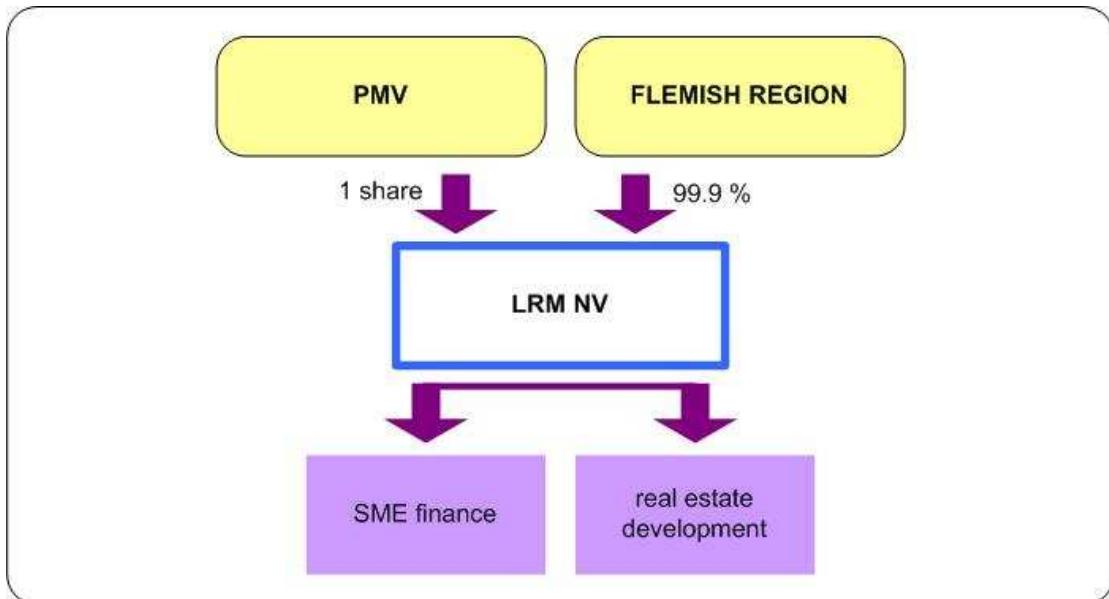
- Participations in companies (equity)
- Loan formulas and subordinated loans
- Guarantees (together with guarantee management)
- Contractual collaboration structures
- Joint ventures and other temporary commercial associations

Setting up public funds within PMV can be done by supplementary capitalisation, decided by the Flemish Government.

<b>EXPERIENCE WITH PPP</b>	<ul style="list-style-type: none"> <li>▪ PMV is coordinating several PPP-operations of the Flemish government: Via-invest, DBFM schools, airport Antwerp,...</li> <li>▪ PMV acts as holding company of Flemish PPP-participations.</li> </ul>
<b>EXPERIENCE WITH INTEGRATED URBAN DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>▪ PMV is actually involved in the preparation of some area developments and real estate developments: IPZ Petroleum Zuid Antwerp (development of business plan commissioned by Flemish Government), Gent-Fabiolalaan (proposed collaboration with NMBS, specific role of PMV is the coordination of the realisation of a Flemish Administrative building).</li> <li>▪ The experience of PMV with the execution of large-scale area development is however limited until today.</li> </ul>
<b>CONCLUSIONS TOWARDS JESSICA STRUCTURE</b>	<ul style="list-style-type: none"> <li>▪ PMV is the "established" channel for government supported initiatives in different markets.</li> <li>▪ PMV or created daughters could act as UDF, if necessary legal provisions are made.</li> <li>▪ Over recent years PMV developed several funding instruments.</li> <li>▪ Because of experience both on financial engineering and development of complex projects, it seems appropriate to structure an eventual JESSICA initiative through PMV.</li> </ul>

### 5.1.2 LRM

LRM or Limburgse Reconvertiemaatschappij (= public company for the economic redevelopment of Limburg) was created with the residual budget for the closing of the mining companies in Limburg (208 Mio of euro in 1994).



The LRM is an investment company with “catalysing the economy of Limburg” as its main strategic objective. This is structured around two main activities:

- Corporate finance: LRM offers risk capital to companies which want to develop their business in Limburg. Normally this is done by equity participations.
- Real estate development: LRM is mainly focusing on development of business parks and other business accommodation such as incubators. A second axis in their real estate activities is the valorisation of the existing real estate portfolio of the former mining companies.
- These developments (structured as PPP with other public and private partners) are structured as participations in daughters of LRM.

<b>EXPERIENCE WITH PPP</b>	<ul style="list-style-type: none"> <li>▪ LRM is involved in several public-private partnerships, in area development but also in other domains.</li> <li>▪ LRM has particular experience with participative PPP operations</li> </ul>
<b>EXPERIENCE WITH INTEGRATED URBAN DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>▪ LRM is involved in the redevelopment of some former mining sites and has set other development schemes.</li> <li>▪ LRM still has important land portfolio's, which could be developed in the next years/decades.</li> </ul>
<b>CONCLUSIONS TOWARDS JESSICA STRUCTURE</b>	<ul style="list-style-type: none"> <li>▪ The development portfolio of LRM could be an important leverage for a JESSICA-fund in Limburg</li> <li>▪ Within a geographically structured approach, LRM could be used to structure a UDF.</li> <li>▪ The concrete experience of LRM on financial engineering, participative PPP could be leverage should be leveraged over the Flemish Region.</li> </ul>

### ***5.1.3 Provincial development agencies***

Provincial development agencies (POM – *Provinciaal ontwikkelingsbedrijf*) are 100% publicly owned companies (by one of the 5 Flemish provinces) and are mainly active in the field of economic development:

- Investment promotion
- Strategic planning of industrial sites and activity zones
- Park management
- Facilitating of greenfield and brownfield development

Most of these provincial development agencies concentrate on the “facilitating role”, leaving investment and risk-taking to other public bodies or private developers.

<b>EXPERIENCE WITH PPP</b>	<ul style="list-style-type: none"> <li>▪ POM Antwerp acted as facilitator and coordinator of a public-public agreement for the sanitation of an highly contaminated industrial site in Willebroek.</li> </ul>
<b>EXPERIENCE WITH INTEGRATED URBAN DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>▪ POM Limburg participated together with LRM in the development and management of a new business park in Sint-Truiden (small town). For this purpose a public-public SPV is created.</li> <li>▪ POM's are generally not active in complex multifunctional urban projects.</li> </ul>
<b>CONCLUSIONS TOWARDS JESSICA STRUCTURE</b>	<ul style="list-style-type: none"> <li>▪ Given the specific but diverse focus of POMs, no role in a Flemish JESSICA structure should be foreseen.</li> <li>▪ POMs could eventually play a role in specific, project-related situations.</li> </ul>

### ***5.1.4 Intermunicipal agencies***

Intermunicipal agencies are autonomous bodies, owned by a group of municipalities or cities. Typical activities of intermunicipal agencies are the following:

- Utilities (water, electricity, television,...)
- Household refuse collection
- Social housing
- Crematories
- Economic development: lay-out and management of business parks

Especially the last activity connects with the scope of JESSICA. However we can see that most of these intermunicipal agencies are not very active in cities. The latest prefer to develop this kind of projects with proper municipal development agencies.

CONCLUSIONS TOWARDS JESSICA STRATEGY	
<b>EXPERIENCE WITH PPP</b>	<ul style="list-style-type: none"> <li>▪ In the development of business parks, most intermunicipal development agencies act as simple developer.</li> <li>▪ Intermunicipal agencies sometimes play a role in projects with different public partners (e.g. collaboration with social housing companies or single municipalities).</li> <li>▪ Experience with PPP is rather limited.</li> </ul>
<b>EXPERIENCE WITH INTEGRATED URBAN DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>▪ Most intermunicipal development agencies have long-dated experience with planning, development and management of activity zones.</li> <li>▪ However, experience and activity in complex and multifunctional urban projects is limited.</li> <li>▪ Some intermunicipal development agencies have highly developed planning services. Again this kind of services are of most value towards small municipalities, for which the development of planning documents represents a costly and discontinuous activity.</li> </ul>
<b>CONCLUSIONS TOWARDS JESSICA STRUCTURE</b>	<ul style="list-style-type: none"> <li>▪ Given the fact that intermunicipal agencies do not play very active roles in cities, no formal role should be given within a Flemish JESSICA framework.</li> <li>▪ However on project level, in specific contexts, they could eventually play a role.</li> </ul>

### 5.1.5 Kenniscentrum PPS (Knowledge Center PPP)

The Flemish Government created the PPP Knowledge Centre in mid 2002. It forms part of the Department of Services for the General Government Policy and the Flemish Government Executive Staff. Its current mission and the functions assigned to it are those of field developer, knowledge broker, process guide and added value monitor in the field of PPP. It performs these tasks with a view to creating social added value and increasing the efficiency of public administration.

The Flemish PPP Knowledge Centre focuses on two important PPP areas: on the one hand the so-called DBFM projects, and on the other hand the Urban Renewal Projects based on PPP. This task the Knowledge Centre performs both as a centre of expertise and as process guide for projects. Within these two PPP branches the Knowledge Centre is permanently developing a toolset, the so-called "instrumentarium", to provide the necessary support for these projects from the early stages onwards.

The compulsory advice from the Flemish PPP Knowledge Centre concerning Flemish PPP projects ensures guaranteed quality of the decision making process and enhances public support as well as the success of these PPP projects. With this advice the Knowledge Centre contributes to a thorough assessment of desirability, feasibility and practicability of a PPP project.

With its expertise in assessing PPP projects, the support in the preparatory stages of projects at the local level of governance and the development of tools on behalf of these projects, the PPP Knowledge Centre is keen to take on challenges in the field of urban renewal.

<b>CONCLUSIONS TOWARDS JESSICA STRATEGY</b>	
<b>EXPERIENCE WITH PPP</b>	<ul style="list-style-type: none"> <li>▪ The PPP Knowledge Centre has been actively involved for a considerable time in numerous PPP projects at different levels of governance in Flanders.</li> <li>▪ The PPP Knowledge Centre has also positioned itself as a pre-eminent force in development and support of renewal projects (among others various urban renewal projects) and DBFM projects, e.g. masterplan Kasteelpark "Viteux" in De Pinte, "De Kloef" in Ronse, the "Picanol" site in Ypres, ...</li> <li>▪ The PPP Knowledge Centre is permanently working on a comprehensive set of instruments designed to provide support in the early stages of urban renewal projects: it involves a structured approach, which is explained in the brochures on "Market consultation by public administrations" and "Urban renewal by means of PPP" as well as a set of model specifications for PPP urban renewal projects.</li> </ul>
<b>EXPERIENCE WITH INTEGRATED URBAN DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>▪ The PPP Knowledge Centre has gained experience in the support of various renewal projects, among others the above-mentioned urban renewal projects.</li> </ul>
<b>CONCLUSIONS TOWARDS JESSICA STRUCTURE</b>	<ul style="list-style-type: none"> <li>▪ The Flemish PPP Knowledge Centre is to be incorporated in a Flemish JESSICA framework on the grounds that it can bring added value to the preparation and selection of urban renewal projects.</li> <li>▪ According to the PPP-decree published in the Belgian State Journal of 19 September 2003, the Flemish PPP knowledge centre is charged with the policy preparation and evaluation concerning all Flemish PPP-projects which includes the sensitisation and intermediation between government and private sector. A formal advice by the Flemish PPP knowledge centre is obliged for Flemish PPP-projects.</li> </ul>

#### *5.1.6 Cities*

Cities play an ambiguous role in the field of urban renewal, being:

- Initiator/facilitator
- Investor/developer
- Authority on urban planning
- Issuing of building permits

Historically, cities had a lot of direct investment in urban projects: acquisitions, site preparation, public domain but also real estate objects such as housing projects. Besides, cities often have important real estate portfolio's. More and more, this is evolving to a situation where cities focus on their public roles, leaving

the developing and exploitation of real estate to one or several autonomous development agencies.

The Flemish Urban Policy focused a lot on competence building within cities. Within urban renewal projects, cities are stimulated to "take the lead" in the definition of projects, the public-public agreements and the steering of public-private partnerships.

Cities indicate that:

- Some cities have some quite coherent development portfolios (e.g. some research parks around Ghent). It could be further explored if these could lead to an UDF
- A major problem in large scale urban investments is the coordination with regional investments, mainly in infrastructure. A simple decision on Government level can change an anticipated project phasing.
- Some other regional investments are done through specific and independent government bodies. Coordination with these bodies turns out difficult, because of their independent decision making.
- City contracts have been a good starting point to come to more coordination between city and region but have little possibilities for extortion. Financial engagements and phasing have an indicative status.
- Operations in deprived neighbourhoods are difficult to turn into market-driven developments. For high-impact redevelopment, acquisition of decayed houses is necessary. However the economic (residual) value of these properties might be very low, buyers will always be found for a higher value.
- Cities can still finance their projects through their own budgets and eventually take-up loans. But an advantage of the JESSICA framework could be that projects have smaller impacts on the city budget and that risks are shared with another (regional) public partner. Also, JESSICA could make IFIs more accessible for urban projects.
- Cities stress the fact that they wish to continue the role of project director. JESSICA should under no circumstances lead to a situation where a city is put aside in the development of a project.

<b>EXPERIENCE WITH PPP</b>	<ul style="list-style-type: none"> <li>▪ Cities structure their PPPs through municipal <b>autonomous development agencies</b>.</li> <li>▪ Some cities have built up quite extensive experience on PPP for city development.</li> <li>▪ Other cities have very limited experience.</li> </ul>
<b>EXPERIENCE WITH INTEGRATED URBAN DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>▪ The new decree on spatial planning forced cities and municipalities to <b>intensify their role</b> in strategic spatial planning.</li> <li>▪ This has led to <b>extensive capacity and knowledge increase</b> in most cities.</li> </ul>
<b>CONCLUSIONS TOWARDS JESSICA STRUCTURE</b>	<ul style="list-style-type: none"> <li>▪ working through UDFs for urban development can <b>take away some conflicts of interest</b> between different roles a city plays</li> <li>▪ Creating joint risks and developments between the Flemish Region and a city could <b>create more advantageous development conditions</b>.</li> <li>▪ If projects of different cities are brought together within 1 UDF, <b>financial interests</b> of these cities should be <b>clearly defined and separated</b>.</li> <li>▪ Structuring projects through UDFs should not lead to loss of <b>control by cities on the realisation of public objectives</b>.</li> </ul>

### 5.1.7 Municipal development agencies

Municipal development agencies (AGB – *autonom gemeentebedrijf*) are autonomous legal bodies, owned and controlled by municipalities. They can act as corporate bodies and will have to comply with corporate legal requirements:

- Accounting and annual statements
- Corporate tax
- VAT
- ...

The VAT-liability of these bodies, has been the major opportunity for many municipalities to create an AGB for the operation of swimming pools, parking facilities, cultural infrastructures,... Some of them have also been created in order to facilitate urban (re)development projects. Reasons also can be multiple:

- The ability of AGB's to take risk-bearing participations in public-private SPV's
- The corporate accounting system gives more flexibility for a project oriented approach than a city budget.
- VAT-recuperation on real estate operations
- Flexibility of decision making
- ...

Some of these municipal development agencies have been very active in developing and promoting integrated urban development plans (non-exhaustive listing):

#### **AGSOB Ghent**

##### **Oude Dokken**

AGSOB has been project promoter for a project around the former inner city harbour of the city. Until now, a masterplan has been developed and some accessory studies have been done.

AGSOB will coordinate the entire development. The development will be done through a bunch of public-private partnerships

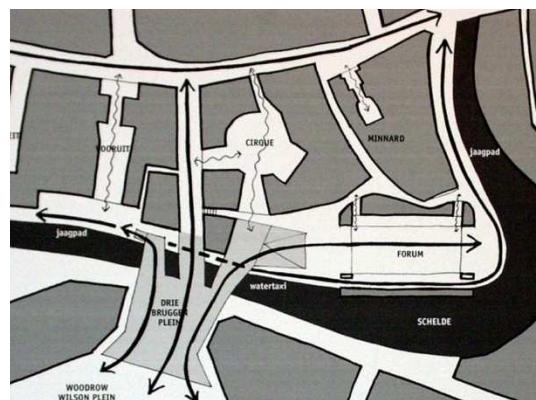


##### **Waalse Krook**

Waalse Krook is a project site on a very strategic location in the city, that consists of various parts, but all are owned by the City of Ghent.

AGSOB has conducted the feasibility studies so far and will now coordinate further execution: architectural studies and set-up of public-private partnerships.

Eventually AGSOB will do some (commercial) development at own risk.



## AG Vespa

### Eksterlaar

AG Vespa and a private developer are both owners of a large development site in the 20<sup>th</sup> century belt of the city. Both parties agreed to work out together masterplanning and other accessory development studies.

However, it will not be a joint risk-taking development. Both parties will each their own part of the development.



## SOK Kortrijk

### Redevelopment inner-city shopping

The autonomous development agency of Kortrijk is coordinating an ambitious redevelopment of the inner-city commercial heart.

Through a contractual PPP a school will be redeveloped to a inner-city shopping centre.

But, besides, the SOK and the private partner set up a fund that will redevelop other commercial real estate in the area in order to strengthen the leverage of the shopping centre on the rest of the area. The fund has been capitalized with 2 Mio of euro of the private partner, 1 Mio of the SOK and has a duration of minimum 10 years.



<b>EXPERIENCE WITH PPP</b>	<ul style="list-style-type: none"> <li>▪ AGBs are quite largely used as the investment channel for different types of PPP in cities.</li> <li>▪ Although most PPPs are contractual, some cities (e.g. Ghent and Kortrijk) have already set up running funds to participate in PPP-schemes.</li> </ul>
<b>EXPERIENCE WITH INTEGRATED URBAN DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>▪ Many AGBs have been active in master planning for urban developments in their town.</li> <li>▪ It depends on local practice which distribution of tasks exists between the AGB and the other city services.</li> </ul>
<b>CONCLUSIONS TOWARDS JESSICA STRUCTURE</b>	<ul style="list-style-type: none"> <li>▪ AGBs could be used to <b>channel financial or real estate contribution of cities in UDFs</b>.</li> <li>▪ AGBs or its subsidiary could act as an <b>UDF on city level</b>.</li> <li>▪ Some AGBs already act as <b>project promoters within the current ERDF-program</b> or as local contact points.</li> </ul>

## 5.2 Private developers

Most urban renewal projects in Flanders can count on the active involvement and expertise of private partners. However, these often have limited experience with complex and large scale area development. Most private developers focus on real estate development, with rather short-term investment focus. Belgian real estate developers can be classified as follows:

- Land owners/investors with focus on allotment: these parties mostly focus on peripheral housing allotments or activity zones. Some of these manage important historic land portfolios. (p.e. Matexi,...)
- Building contractors: construction companies develop their own market by launching own projects. Most of these companies seek for quick revenues, but the development of the PPP-market has driven some of these to very specialised players in integrative development and maintenance concepts (p.e. Van Roey, Besix,...)
- Real estate investment companies: development of own investment objects with a long-term time horizon. In Belgium, as in other countries, these companies mainly focus on offices, logistic parks, peripheral retail parks. Contrary to neighbouring countries, their present in the housing market is very limited. (p.e. Cofinimmo, group Bernaerts,...)
- Niche players: a limited group of niche players exist such as brownfield developers, retail park developers,... (p.e. PSR, Himmos,...)

The presence of parties with a long-term investment focus, such as banks or pension funds, is very limited in development, specially compared to the Netherlands. It might be no surprise that Dutch developers are taken important parts the large-scale developments in Flanders (p.e. Heijmans, Wilma, ING RED, AM,...)

Flemish private developers usually seek for a minimum return on investment of 15%. In case risks are higher (e.g. under current market circumstances) this can go up to 20%-25% or more.

Towards the JESSICA framework, private developers stressed the following:

- If projects are brought together in a portfolio, and private developers are sought on portfolio level (UDF), this portfolio should be composed within one city. A portfolio which is spread over multiple cities, will cause too much political troubles, which will affect the timing and programme of a project.
- Private actors are not interested in 'Open Funds'. They prefer partnerships for a fixed amount of projects, also based on global financial agreement per project. This means that only projects with a clear spatial plan and therefore a limited amount of projects can be clustered and co-funded by a private partner at a certain moment.
- Within participative PPP, a 50-50 participation and decision-making is seen as the only successful formula, because it forces both parties to strive for common goals and it avoids situations where one party will force his will over another one.
- In this situation, it has to be guaranteed that it is really about equal decision making. Private parties are willing to contribute more to project initiation and master planning. Until now the situation has much been that cities prepare a master plan and private parties are sought to invest in an already defined project.
- An important added-value of JESSICA could lie in easier and cheaper financial conditions than those that can be found on the private market.
- The market of project developers is quite fragmented. Most of the companies are specialised in certain type of projects (housing, offices ...) and only a few companies in Flanders have the skills and scale for mixed urban projects.

<b>EXPERIENCE WITH PPP</b>	<ul style="list-style-type: none"> <li>▪ Some private developers have highly focused on PPP in recent years. Generally speaking, a high presence of building contractors is seen in urban renewal projects.</li> <li>▪ Developers rather focus on identifiable 1-object PPP's.</li> </ul>
<b>EXPERIENCE WITH INTEGRATED URBAN DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>▪ Urban renewal projects have involved a group of private developers within integrated urban development.</li> <li>▪ Their role has mainly been in the finance and realisation of the project. Little involvement exists in initiation and conception of project.</li> </ul>
<b>CONCLUSIONS TOWARDS JESSICA STRUCTURE</b>	<ul style="list-style-type: none"> <li>▪ Only <b>limited UDFs</b> could potentially attract private developers to invest.</li> <li>▪ The action field of an UDF and its HF will always have to stay on a <b>thin line between "market conformity" and "difficult projects"</b>.</li> <li>▪ The JESSICA-framework should be seen as an opportunity to integrate public-private co-production. Private parties are willing to put their shoulders under this, for <b>projects that are politically decided and not contested</b>.</li> <li>▪ Also for private developers JESSICA can be a <b>win-win situation</b> as it could ease some development risks and bring more investment volume to the market.</li> </ul>

### 5.3 Banks and investors

A distinction should be made between the classical banking activity and investors with long-term scope.

Classical banks, in these times more than ever before, tend to be extremely risk-averse. In lending formulas, risks should be secured. Although most banks developed real estate activities, they generally seek for the most secured investment products. Besides, within the current context of the financial crisis, banks will have less liquidity available for funding and will be more risk-averse. This will generate lower leverage debt to equity ratios. A tendency exist in the banking sector to go "back to basics". This attitude might stay preserved in the long run.

Long-term investors are parties with high investment availabilities. Their presence on the Belgian development market is not very strong and the financial crisis has strongly diminished the availability of funding within these funds as well. In contrast with banks, under the condition that they have enough steering potential within a project, these parties are willing to take more long term engagements. Examples of these kind of parties within the Belgian market are Fortis RE, ING RE, Cofinimmo,...

Banks and investors are generally working with a pan-European strategy, or even larger. Therefore, these parties could be an interesting source for knowledge

transfer, bringing in best practices, both in the field of project finance as product development.

Towards the JESSICA framework, banks and investors stressed the following:

- For banks, under current market conditions, investments terms should be limited to maximum 15 years. If an UDF is focused on development and not on exploitation, this shouldn't be a problem.
- For banks, a government supported body that could take residual risks within large scale urban projects could be an interesting opportunity.
- PPP's for any kind should have enough room for optimization and creation of efficiency gains. Recent larger portfolio PPP tended to be too much nailed-up with detailed SLA's (service level agreements), design criteria,... where lots of potential efficiency gains are lost.
- Investors, interested in portfolio investment under the form of an UDF, were pleased by the fact that UDFs should/could have a thematic focus. Also for them, this focus is important to create a clear business plan and project teams.
- To tackle an efficient decision making within an UDF, the development objectives and the business plan should be clearly defined and endorsed by all parties.
- Investors with long term focused state that the Flemish urban development market is in a way distorted by the high presence of building contractors in projects. These parties are interested in building in the short term, creating volume for their building companies. A long term focus, with parties that can wait for return, is sometimes necessary for larger scale (larger impact) projects.
- One of the problems for investment with long-term focus is the loose planning system in Flanders. Cities sometimes tend to make too much plans compared to market potential. In order to have successful development with long time horizons, a stable and strict planning system is primordial.
- Traditional banks stressed that under current market conditions, they are not interested to finance large portfolios. Besides, a strong adversary exists towards these portfolios because risks are difficult to identify. Banks prefer to enter in a JESSICA structure at project level.

<b>EXPERIENCE WITH PPP</b>	<ul style="list-style-type: none"> <li>▪ Most banks have been actively in recent PPPs in Flanders, sometimes as lead bidder, sometimes as backing financial partner.</li> <li>▪ Experiences with this PPPs and current market conditions have lowered appetite for larger portfolio PPPs.</li> </ul>
<b>EXPERIENCE WITH INTEGRATED URBAN DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>▪ Banks and investors are not very present in current Flemish urban renewal projects.</li> <li>▪ Some investors might be more interested, under the condition that more influence could be given on the project definition and development.</li> </ul>
<b>CONCLUSIONS TOWARDS JESSICA STRUCTURE</b>	<ul style="list-style-type: none"> <li>▪ <b>Traditional banks</b> will limit their role under current circumstances to <b>loan provider on project level</b>.</li> <li>▪ A limited group of investors will possibly interested in the portfolio approach. Therefore a JESSICA <b>strategy should start with limited development portfolios</b> in order to give the market chances to develop.</li> <li>▪ JESSICA could create the <b>opportunity for new types of investment funds</b> in the market (cfr.</li> </ul>

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	IGLOO regeneration fund)
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## 6 THEME 3: URBAN PROJECTS AND FINANCIAL ENGINEERING

<b>Research objective 3</b>	To identify and evaluate how to evolve from existing financial mechanisms in the Flemish Region into financial engineering actions and products
<b>Research question 5</b>	Identification and overview of selected JESSICA Projects in the above mentioned Integrated Urban Development Plans ("Pilot JESSICA Projects"), together with selection criteria to be defined by the Flemish Steering Committee. This overview of Pilot JESSICA Projects should include: background and rationale, including public interest aspects, financial analysis of anticipated commercial performance (description of potential revenue generating capacity), timing of implementation, readiness for JESSICA type funding and other key information relevant for JESSICA. (Pilot projects can possibly be among those currently being executed by cities under the conventional ERDF framework.)
<b>Research question 7</b>	Description of the how to evolve from a public-private cooperation into a public-private production and service delivery capability, with shared responsibilities and generating of revenues, also for the public sector.

### 6.1 PPP within urban projects in Flanders

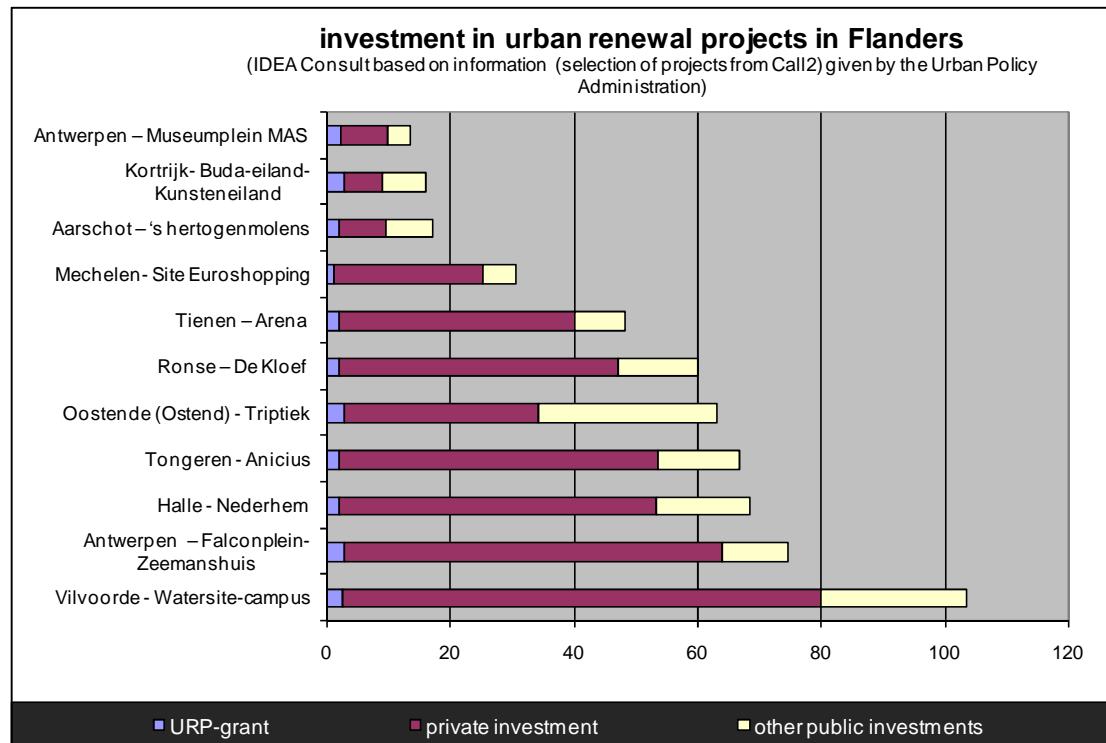
#### 6.1.1 Urban renewal projects and PPP

The Flemish program of "urban renewal projects" caused an important boost in integrating public and private knowledge and experience within complex urban projects. The interest of private partners in a urban development project was seen as a measure for the market potential and later success and sustainability of a project.

One of the jury criteria specifically insists on innovative PPP within urban renewal projects and also states that at least 30% of the total investment volume should come from private partners.

Of a sample of urban renewal projects, an analysis has been made of the investment volumes.

Graph 1: Analysis of investments in urban renewal projects



Source: IDEA Consult based on data given by the Urban Policy Administration

Following conclusions can be made:

- The URP-grant is rather limited, compared to the total investment volume, but also compared to other public contributions (local or from other policy units). This is mainly due to the fact that the grant is designed as a "leverage-grant"
- Some projects have a limited scope (spatially and financially), e.g.: a square around a new museum in Antwerp with a total investment cost of 13,6 millions of euro.

Typical problems with urban renewal projects are the following:

- **Local political disagreement:** the realisation of urban renewal projects creates high momentum, which incites high public stakes. Given the fact that most urban renewal projects also comprise public parts (e.g. a design academy, a cultural center,...), political disagreements over these public parts can cause important delays.
- **Over-supply of projects:** one of the merits of the urban renewal project subsidy has been the dynamic and the consciousness that this has caused within cities for urban renewal projects. However, this also implies an important risk for over-supply of projects, when grants are easily accessible to elaborate projects (concept subsidies). Especially in smaller towns, with high competition of the surrounding rural area on housing markets, this is an important issue.
- **Not enough (public) funds available:** most projects are initiated by the public actors. They have to invest a lot of money and time in a project, before private partners can be found. Finding enough money during the process of preparation is often a problem.
- **Non-conformity with market:** the criteria for urban renewal projects much stress social mixture and mixed-use projects. This

JESSICA cannot solve all of these problems, but can certainly contribute to the last two problems. First, it provides the public actors the money to pre-invest in making plans and structuring a project. This can be earned back later in the project. Second, because the money must revolve, it forces public partners to create a more financially balanced project. Besides, the idea of revolvement can guarantee cities that Flemish funds and European ERDF-funds will be reused within the city.

Another improvement through working with JESSICA, is the stronger involvement of private sector actors, which could enhance a critical assessment of market possibilities in the cities so that projects become more sustainable.

#### ***6.1.2 Typology of PPP within urban projects in Flanders***

PPP as an instrument for developing spatial projects, has not a very long history in Flanders. PPP-structures are used only since about 5 years, but it's growing rapidly. As always, it started with PPP-constructions with strict and separated tasks for both the public and private partners. They worked together on the plans, but after that, the private partners supplied the most of the needed funds, executed the necessary physical developments (including the land developments and the real estate) and took all the risks. The public actor supplied a subsidy, but did no investments and took no risk. The agreements were settled in a contract (contractual PPP). About 90% of the projects in Flanders is still structured this way.

Since a few years, large cities in Flanders felt the need to participate more active in some projects. The Flemish PPP Knowledge Centre has been founded in this period and takes up till now a leading role in disseminating expertise and knowledge on PPP in the Flemish region. Within complex and important projects, it was necessary to stay involved as a public actor, to influence the results (quality, program,...), to divide the risks, to share knowledge etc. In these cases, public actors were looking for more long-term relationships with private actors at the level of a project. Usually public and private actors establish a Special project vehicle (SPV) for a certain project, fund it with money and land and do the developments (and take the risks) together. We call this a participative PPP. Nowadays a lot of large and complex spatial projects, and most of the (partly) ERDF funded projects, are organized this way in Flanders. Examples are 'The Loop' and 'Eilandje Zwijnaarde' in Ghent.

Whereas current PPP-projects in cities are strongly taken forward by contractors/developers, JESSICA will enhance a more investors' approach, rather focused on the long term. Big and complex projects such as the Loop, Petroleum Zuid and Eilandje will benefit from this approach.

## **6.2 Influence of grant finance in large scale urban projects: The Loop in Ghent**

*This analysis is based on a financial feasibility study made in 2006 by City Beautiful, commissioned by the City of Ghent and his project partner. Some data might be not up-to-date anymore, because of changes in the master plan, the political vision, the spatial delimitation of the project or in the market conditions. For the consistency of the analysis and the data, we opted not to modify this data. In the further analysis, also abstraction is made of the concrete funding structure of the Loop.*

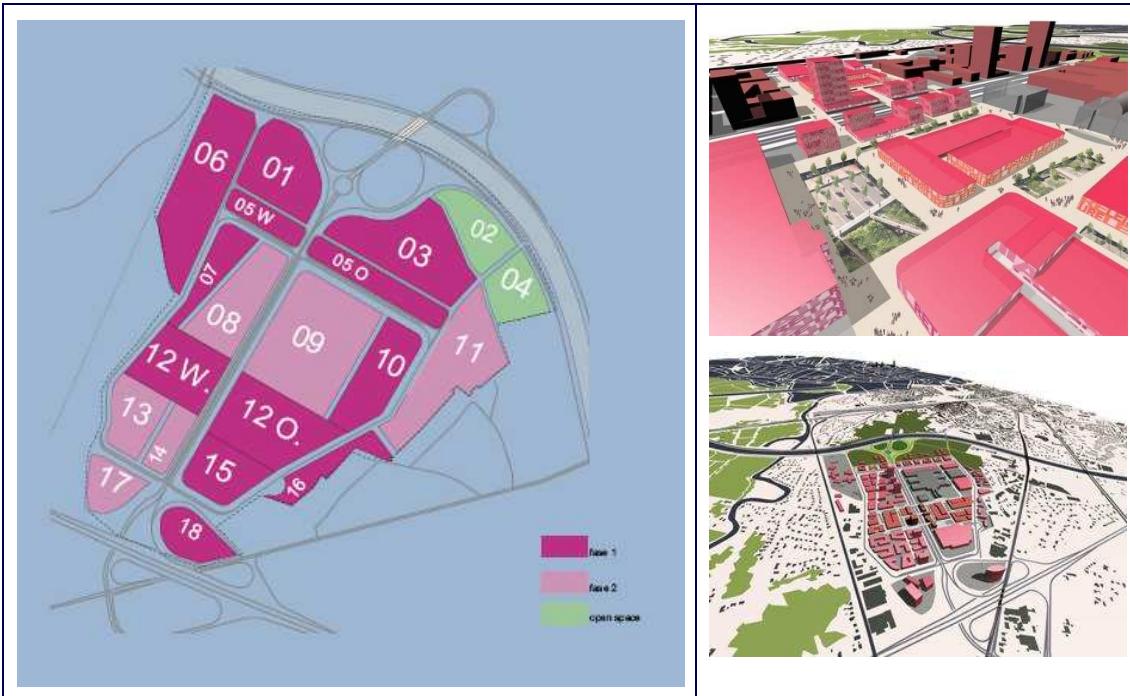
*The following paragraphs should therefore not be read as a concrete advisory towards the project of the Loop but as example of the JESSICA-mechanism.*

### 6.2.1 Description of the Loop

Ghent The Loop is situated in the South of the City of Ghent near the crossing of two major European highways, E17 and E40, connecting Ghent not only to Antwerp and Brussels, but also to the rest of Europe. It is considered as a "strategic project" in the Structural Planning of the City.

The site has a unique location and offers many possibilities to companies looking for regional and supra-regional positioning. The City has expressed its strong support for an Integrated Area Development leading to a consistent project where offices, retail, leisure, residential and trade fair are interrelated.

*Table 5: The Loop*



From the perspective of development, the Loop is a quite innovative project in the Flemish context. The central part of the Loop consists of two major properties, one owned by the City of Ghent, the other part by a private real estate investor. Because of the complexity of the development, both parties agreed to join their land positions in a so-called "land bank". This land bank is a joined development SPV owned by both parties. The City of Ghent contributed for +/- 66% of the site through its AGB, the private parties 34%.

The masterplan of the Loop consists of several "development fields". These development fields are coherent developments which can be executed as separate projects. Some of them will be executed by the development partners of the Loop, some will be sold to third parties and some are outside the property of the development partners. Developers/owners of these sites will pay a contribution to the site development of the Loop.

The program of the Loop is already partly in execution, which resulted in the opening of a new IKEA end of 2008. The RUP defined the program of the Loop until the level of larger building plots.

*Table 6: Program of the Loop*

Programme within territory of the "land bank" NV the Loop (in m <sup>2</sup> GFA)									
FIELD	Offices	Workspace	Leisure	Retail	Ikea	Expo	TOTAL	Residential	TOTAL
all fields	106.400	104.750	34.000	28.600	30.500	-	304.250	84.500	388.750
<b>TOTAL</b>	<b>106.400</b>	<b>104.750</b>	<b>34.000</b>	<b>28.600</b>	<b>30.500</b>	<b>-</b>	<b>304.250</b>	<b>84.500</b>	<b>388.750</b>
Programme third parties (in m <sup>2</sup> GFA)									
FIELD	Offices	Workspace	Leisure	Retail	Ikea	Expo	TOTAL	Residential	TOTAL
all fields	48.600	45.250	6.000	9.900	-	-	109.750	14.000	123.750
<b>TOTAL</b>	<b>48.600</b>	<b>45.250</b>	<b>6.000</b>	<b>9.900</b>	<b>-</b>	<b>-</b>	<b>109.750</b>	<b>14.000</b>	<b>123.750</b>
Programme total masterplan (in m <sup>2</sup> GFA)									
FIELD	Offices	Workspace	Leisure	Retail	Ikea	Expo	TOTAL	Residential	TOTAL
<b>TOTAL</b>	<b>155.000</b>	<b>150.000</b>	<b>40.000</b>	<b>38.500</b>	<b>30.500</b>	<b>-</b>	<b>414.000</b>	<b>98.500</b>	<b>512.500</b>

Source: Financial Analysis by City Beautiful (august 2006)

The realisation of the Loop is foreseen over a long time-horizon. The RUP speaks about decades.

### ***6.2.2 Financial analysis***

#### **Development costs**

Development costs for the loop are expressed on the level of the site development:

- Land
- Major infrastructure: roads, tunnels and bridges
- Preparation of development fields (sanitation, ground works and other preparation costs)
- Realisation of parking facilities
- Engineering, administration and management costs
- Risk & unforeseen costs

Total development costs are estimated at 147Mio of euro.

#### **Revenues**

Revenues emerge at several levels:

- Expected revenues out of development of real estate: the residual value (residual value = commercial value of real estate – realisation costs – profit margin) is available to cover site development costs
- Direct sale of land plots to third developers
- Commercial value of the parkings
- Contributions of third private parties: developments around the actual perimeter of the Loop will contribute through contractual agreements on the major infrastructure works
- Public contributions or grants

In the meantime, these public contributions evolved. Following grants are currently foreseen for the development of the Loop:

- Pégoud avenue (central spine of the project)
  - ERDF: 25% of 2,8 Mio of euro (701.286 euro-priority 3)
  - Flemish regional cofinancing: 60% of 2,8 Mio of euro (1.683.087 euro)
- Bridges (module 14 – Flemish regional grant system for infrastructure):
  - 40% of 5 Mio of euro: 2.000.000 euro
- Ring East-West:
  - ERDF: 30% of 11 Mio of euro (3.290.801 euro-priority 3)
  - Flemish regional cofinancing: 30% of 11 Mio of euro (3.290.801 euro)

Public contributions are now far higher as originally foreseen in 2006. Grants equal +/- 11 Mio of euro today.

## Overview

The following scheme gives a general overview of development costs and revenues on the level of the general structure for site development. This overview doesn't take into account phasing and financing costs. These will be developed further on in different funding scenarios.

*Table 7: Program of the Loop*

OVERVIEW SITE DEVELOPMENT THE LOOP				costs as of 2006
COSTS		REVENUES		
<b>REALISATION OF DEVELOPMENT FIELDS</b>		<b>DEVELOPMENTS</b>		
acquisition		residual values		€ 39.037.689
value of development fields	€ 16.765.183	offices		€ 38.432.311
	€ 16.765.183	workspaces		€ 6.924.856
site preparation		leisure		€ 8.589.210
sanitation	PM	retail		€ 92.984.066
ground works	€ 6.450.810			
site developments	€ 7.715.454			
	€ 14.166.264			
real estate		<b>sale of land</b>		
realisation of parkings	€ 80.115.500	IKEA		€ 14.500.000
	€ 80.115.500	EXPO		€ 13.520.000
supplementary development costs		residential		€ 28.020.000
engineering, administration and management	€ 14.166.264			
risk & unforeseen	25% € 3.541.566	<b>parking</b>		€ 49.635.227
	10% € 1.416.626	commercial value of parkings		€ 49.635.227
	€ 4.958.192			
<b>SUBTOTAL DEVELOPMENT FIELDS</b>	<b>€ 116.005.139</b>	<b>SUBTOTAL DEVELOPMENTS</b>		<b>€ 170.639.293</b>
<b>REALISATION OF BASIC INFRASTRUCTURE</b>		<b>OTHER REVENUES</b>		
acquisition		contribution third parties		
value of land for infrastructure	€ 5.652.176	contributions		€ 6.000.000
	€ 5.652.176			€ 6.000.000
infrastructure		<b>grants</b>		
roads	€ 15.500.000	ERDF		€ 3.992.087
bridges&tunnels	€ 4.500.000	Flemish cofinancing		€ 4.973.888
	€ 20.000.000	Module 14		€ 2.000.000
supplementary development costs				€ 10.965.975
engineering, administration and management	€ 20.000.000			
risk & unforeseen	16% € 3.200.000	<b>SUBTOTAL OTHER REVENUES</b>		<b>€ 16.965.975</b>
	10% € 2.000.000			
	€ 5.200.000			
<b>SUBTOTAL INFRASTRUCTURE</b>	<b>€ 30.852.176</b>	<b>TOTAL REVENUES</b>		<b>€ 187.605.268</b>
<b>TOTAL COSTS</b>	<b>€ 146.857.316</b>			
<b>BALANCE</b>				<b>€ 40.747.952</b>

Source: Financial Analysis by City Beautiful (august 2006) + manipulation by IDEA Consult (grants)

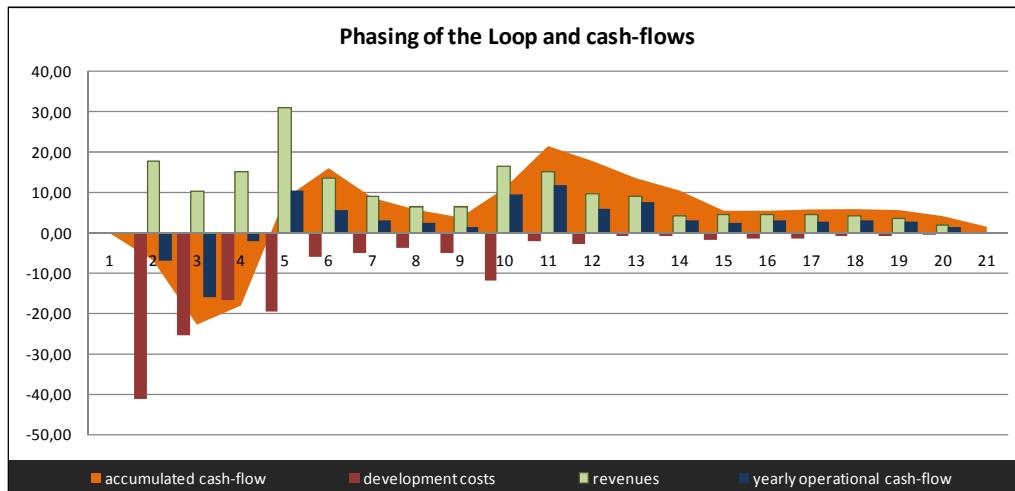
Yet, the following remarks can be made:

- In total, the Loop is a profitable project. The gross balance (before financing costs) is 40,7 Mio of euro taking into account 11 Mio of euro of public grants.
- Also without grants the gross balance (before financing costs) would be 29,8 Mio of euro or 20% on development costs.
- The parking development and exploitation has an important profitability gap. Development costs equal 80 Mio of euro against only 50 Mio of commercial value. This is due to high realisation costs (covered parking decks) and limited attribution of these costs to the developments.
- Given the positive balance of the project, phasing and financial structure of the investment will highly influence the commercial profitability of the project.

## Phasing

Development costs and revenues are spread over a period of +/- 20 years, which will result in important auto-finance capacity (received revenues finance upcoming development costs). This is shown in the following graph.

Graph 2: Cash flow and auto-finance of the Loop



Source: Financial Analysis by City Beautiful (august 2006) + manipulation by IDEA Consult (grants)

We can see that the project has positive operation cash flows from the 4<sup>th</sup> year onwards. This means that sources of finance (equity, loans or grants) are only necessary in the first three years.

With 11 Mio of grants, the project IRR equals 17.6%, taking out the grants from the project make fall the project IRR to 13,2%.

### 6.2.3 *Development scenarios*

In order to test the performance of JESSICA, some scenarios were tested. Hereby we make abstraction of the actual or current development strategy for the Loop.

Under JESSICA, grant finance should be shifted to financial engineering instruments (equity, loans or guarantees). By creating advantageous financial structures, leverage effects should be sought in order to recreate advantageous investment conditions for private investors.

The following three basic scenarios are made:

- **BASIC 0-SCENARIO:** a scenario in which 11Mio of grants are given to development which acts under private development conditions
- **JESSICA SCENARIOS:** Scenarios in which a UDF is financing the project SPV. The UDF is 50%-50% public-private, with equal returns for the public and the private partner. Besides, a public partner (e.g. a city or the Flemish Region) provides the land to the project SPV, through a subordinated debt.

The following general assumptions are made:

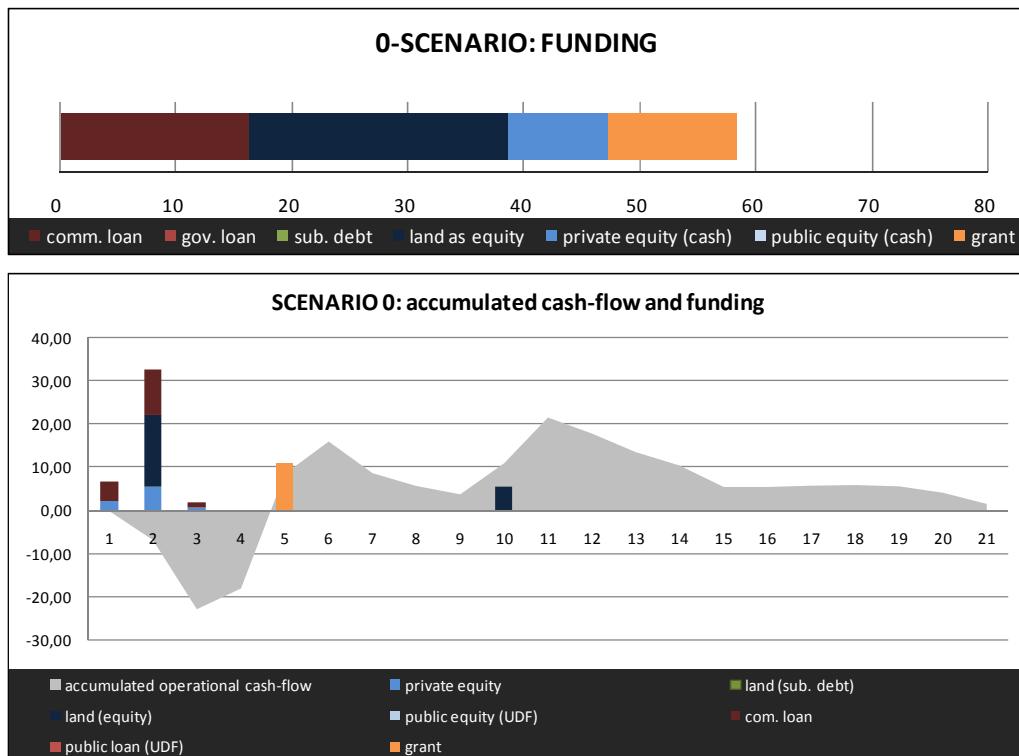
- The equity-debt ratio is foreseen at 30% equity vs. 70% of debt. Debt service for a commercial loan is done at 5,5%.
- The following taxations are integrated in the model:
  - corporate taxes to the project: 33%. This is not optimised within the model (e.g. notional interest,...)
  - taxation of dividends from project to shareholders: 15%
  - levy on the dissolution of the project: 10%
- terms:
  - the project is modelled on a 20-year time horizon, based on the City Beautiful study
  - pay-back of the loans is foreseen in year 20
  - dissolution of the project vehicle (e.g. UDF) is foreseen in year 21

## BASIC 0-SCENARIO: with grant of 11 Mio of euro

In the basic scenario the project is financed by the following sources of finance:

- land is seen as equity (which means that it only has to be paid at the end of the project, but it gets full returns or profit sharings)
- a cash investment by a private investor
- a commercial loan
- a grant of 11 Mio of euro

*Graph 3: Funding structure of 0-scenario*



Source: Financial model IDEA Consult

If we put in these sources of finance in an investment model<sup>3</sup>, the following results come out. The mentioned returns are net returns (after dividend taxation and levy on project-SPV-dissolution).

*Table 8: Basic scenario: results*

BASIC SCENARIO		
project IRR		17,6%
<u>investments (in Mio of euro)</u>		<u>ROI</u>
land (equity)	22,4	7,29%
private equity	8,6	7,38%
commercial loan	16,2	5,50%
grant	11,0	0,00%
total sources of finance	58,2	
total cash attribution	35,8	
<b>total public (JESSICA) funding</b>	<b>0,0</b>	

Source: Financial model IDEA Consult

<sup>3</sup> Calculations are made with a model, developed by IDEA Consult, that takes into account the funding structure and the fiscal treatment of the result through a cash flow simulation and projected profit and loss-accounts and balances.

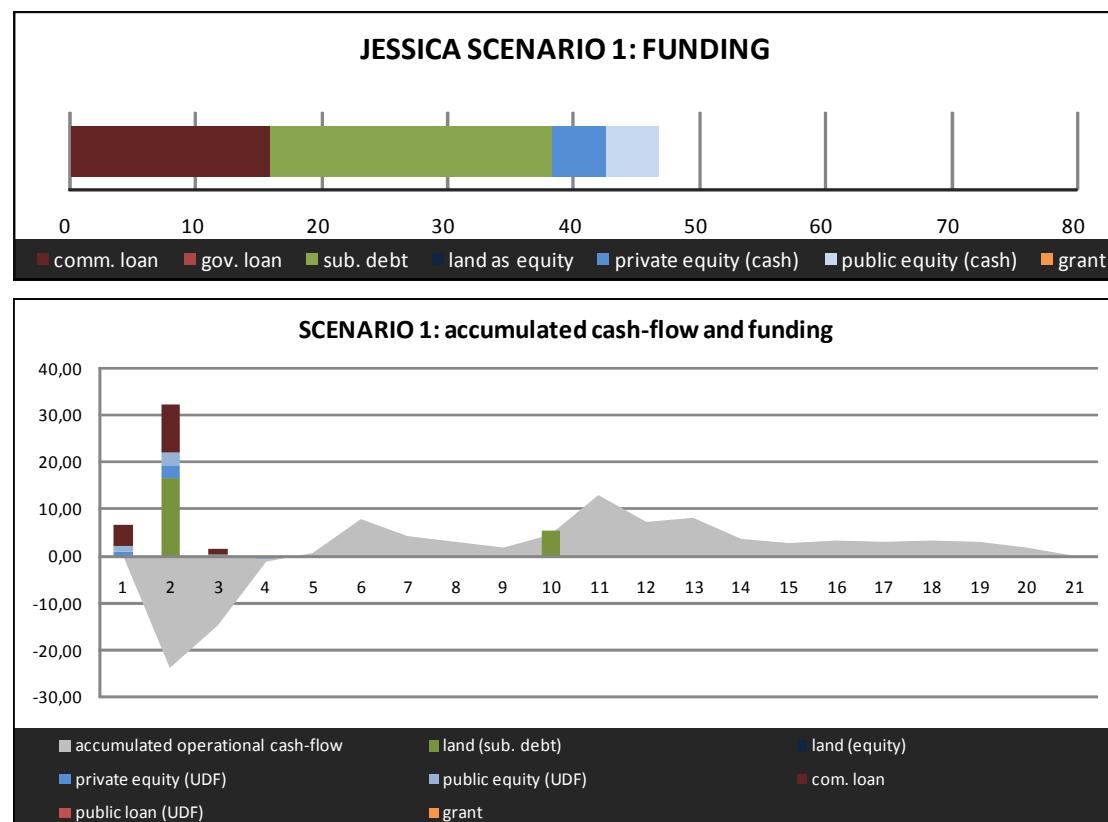
A relatively low ROI of 7,29% (return on investment: dividends/interests + capital pay-back) is available for the shareholders. Because land is treated as equity, the available dividend has to be shared over a large equity deposit.

### JESSICA SCENARIO 1: 50%public-50%private UDF

In a first JESSICA scenario, the project is financed by a 50%-50% public private UDF. Besides, we start from the assumption that the project is realised on publicly owned land (e.g. owned by a city or by a Flemish Regional administration or other Government body). If we threat this land as a subordinated debt<sup>4</sup> with a fixed compensation of 6%, an important leverage can be created.

So, the project has the following funding structure:

*Graph 4: Funding structure of JESSICA scenario 1*



Source: Financial model IDEA Consult

Only 4,2 Mio of euro of public equity is necessary and this leads to the following returns.

<sup>4</sup> Subordinated debt: A loan that ranks below other loans with regard to claims on assets or earnings. Subordinated debt is highly popular in financial engineering because it can create important leverage effects.

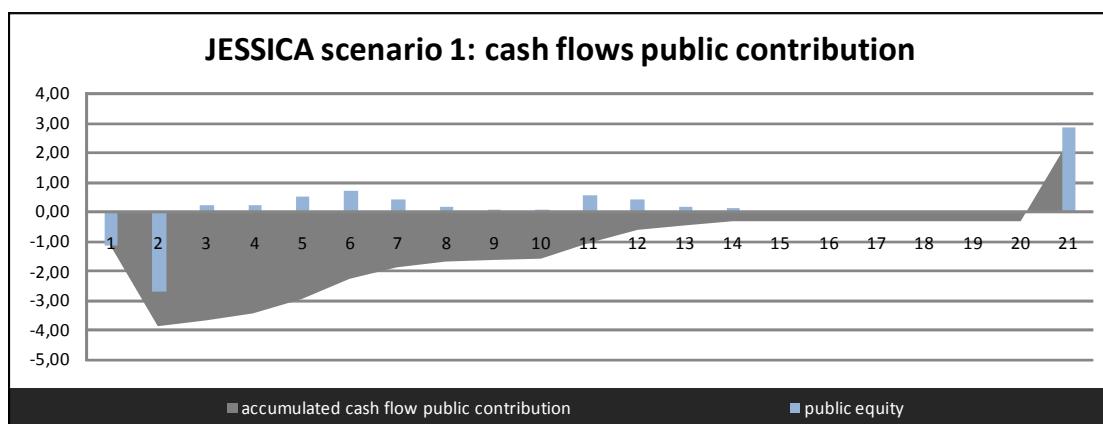
Table 9: JESSICA scenario 1: results

JESSICA SCENARIO 1		
project IRR	13,9%	
investments (in Mio of euro)	ROI	
land (sub. debt)	22,4	6,00%
<b>private equity (UDF)</b>	<b>4,2</b>	<b>7,51%</b>
<b>public equity (UDF)</b>	<b>4,2</b>	<b>7,51%</b>
commercial loan	15,8	5,50%
grant	0,0	0,00%
total sources of finance	46,6	
total cash attribution	24,2	
<b>total public (JESSICA) funding</b>	<b>4,2</b>	

Source: Financial model IDEA Consult

Under this JESSICA-scenario, the public contribution becomes revolving.

Graph 5: JESSICA scenario 1: revolving of public funds



Source: Financial model IDEA Consult

We see that around year 10, the public contribution of about 4,2 Mio of euro is almost recovered. However, for full recovery of investment, one must wait until the dissolution of the project SPV. Of course, funding provisions could foresee an earlier step-out of the public sector by passing its shares/contribution to the private partner.

The return for the private equity partner (7,51%) is already higher than in the basic scenario, but is not really corresponding to what a private investor in the market could expect. Market intelligence tells that net returns on investment for private investors should be between 10% and 15%, depending on the project and its risks.

But, given the fact that 11 Mio of euro is available, additional leverage could be created with 6,8 Mio of euro:

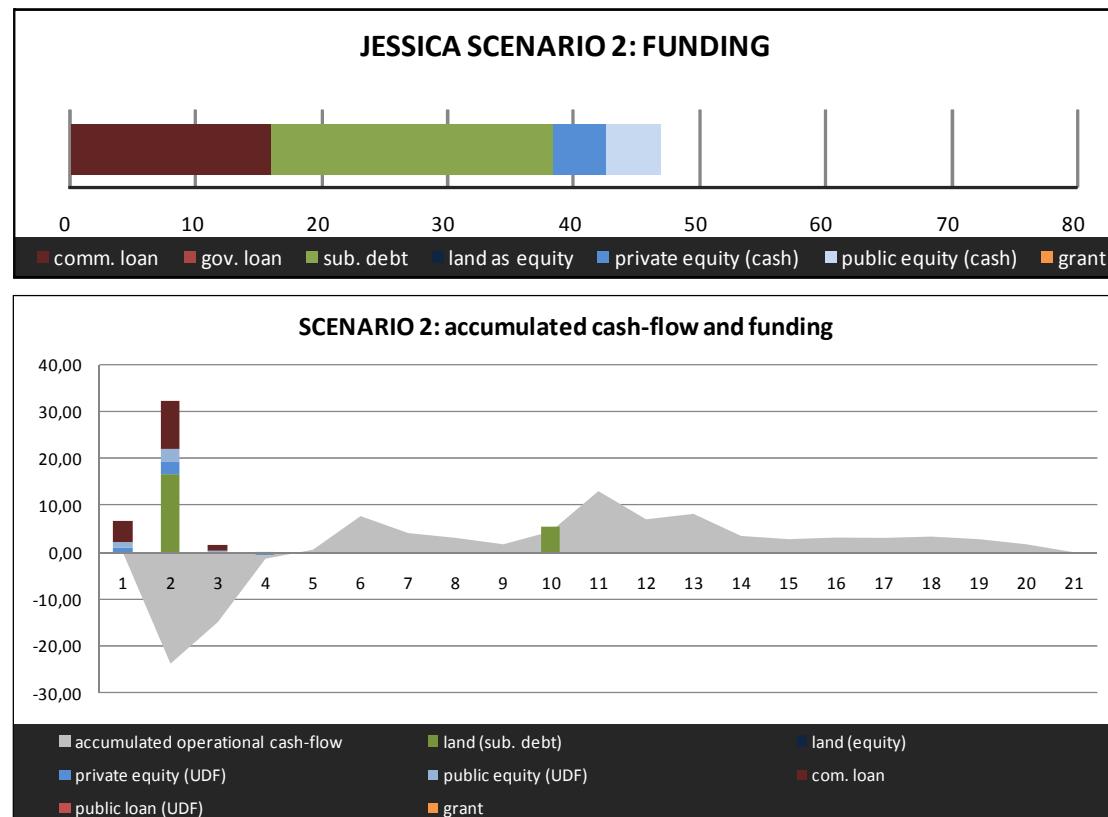
- Through using it as a guarantee towards the commercial loan. Given the already conservative debt-to-equity-ratio, an additional guarantee of 6,8 Mio of euro could highly diminish risks for commercial loan providers and therefore have an important impact on the cost of the loan.
- By using it as loan with under-market interest rate, e.g. equalling the forecasted inflation rate (3% in the model).

This is developed in the following scenarios.

## JESSICA SCENARIO 2: creating beneficial lending conditions through a UDF-guarantee

In the first situation, the funding structure is similar as in the starting scenario, but a lower interest rate on the commercial loan will be used (e.g. -100 BP). These advantageous loans could eventually be contracted with EIB or CEB.

*Graph 6: Funding structure of JESSICA scenario 2*



Source: Financial model IDEA Consult

This leads to the following results:

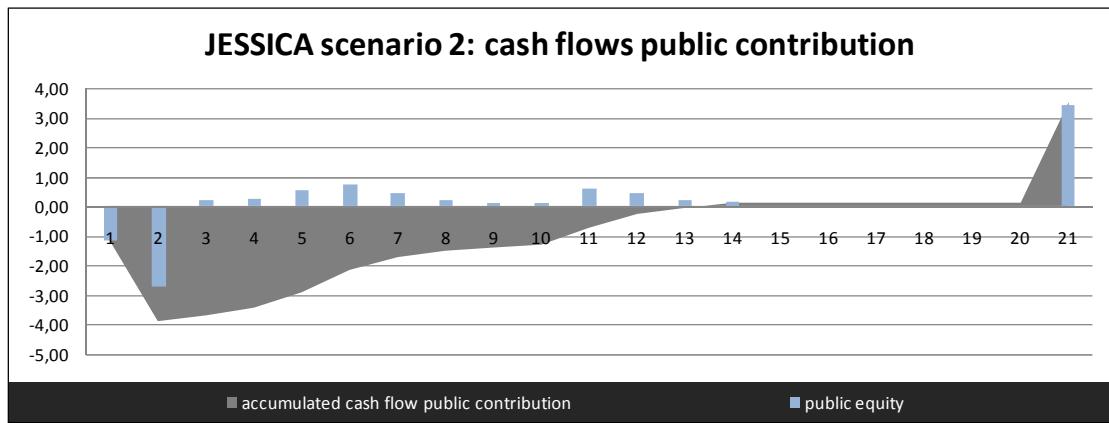
*Table 10: JESSICA scenario 1B: results*

<b>JESSICA SCENARIO 2</b>		
<b>project IRR</b>		<b>13,7%</b>
<b>investments (in Mio of euro)</b>		<b>ROI</b>
land (sub. debt)	22,4	6,00%
private equity (UDF)	4,2	<b>9,03%</b>
public equity (UDF)	4,2	<b>9,03%</b>
guarantee (UDF)	6,8	n/a
commercial loan	15,9	5,50%
grant	0,0	0,00%
<b>total sources of finance</b>	<b>53,5</b>	
<b>total cash attribution</b>	<b>31,1</b>	
<b>total public (JESSICA) funding</b>	<b>11,0</b>	

Source: Financial model IDEA Consult

Because of the lower financing costs, thanks to the public guarantee (through the UDF), return on equity are prominently higher (9,03%). This also accelerates the pay-back of the public contribution under equity, as is shown in the following graph. In this scenario, it might be very plausible for the public partner to step out after year 10.

*Graph 7: JESSICA scenario 1B: revolving of public funds*

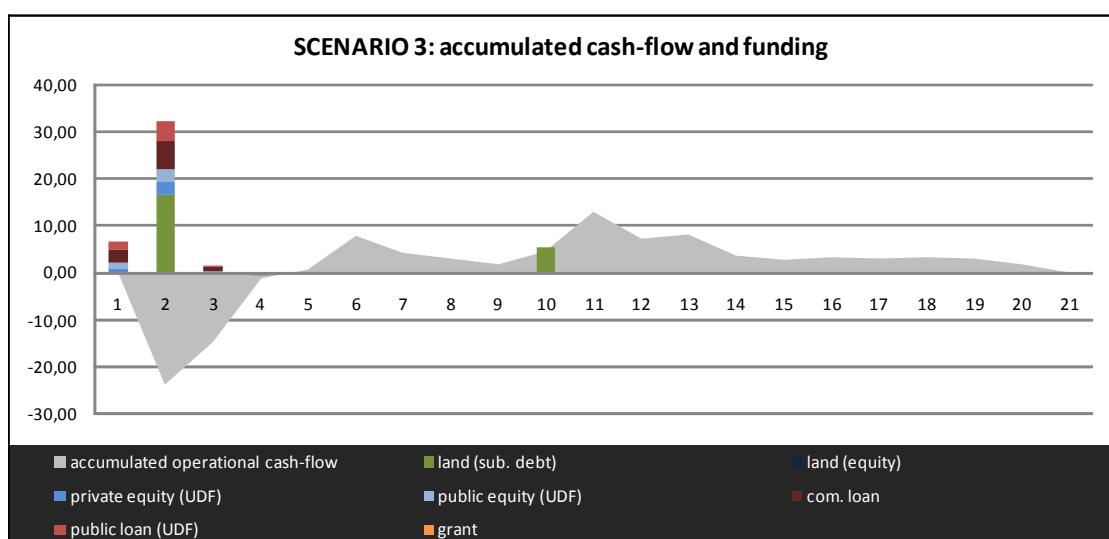
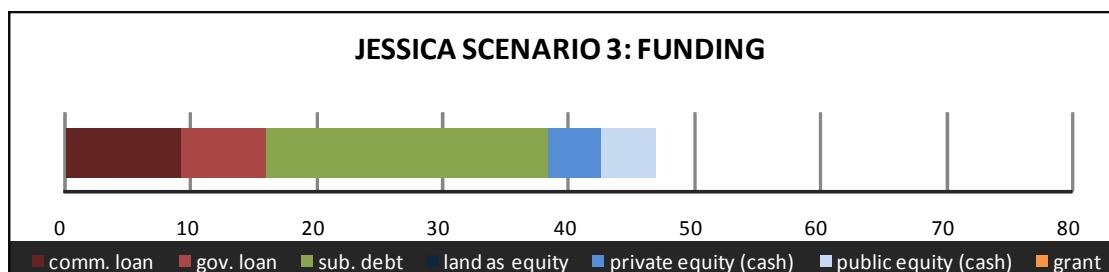


Source: Financial model IDEA Consult

### JESSICA SCENARIO 3: public loan through the UDF

In the next situation, two forms of public finance go directly to the project, under the form of equity and under the form of a loan. This loan is structured, like the commercial loan, with yearly interest payments and pay-back of the capital at the end of the project (year 20).

*Graph 8: Funding structure of JESSICA scenario 3*



Source: Financial model IDEA Consult

This alternative has a slightly better result as the previous one as shown in the following table. Return for equity partners is hereby 9,13%.

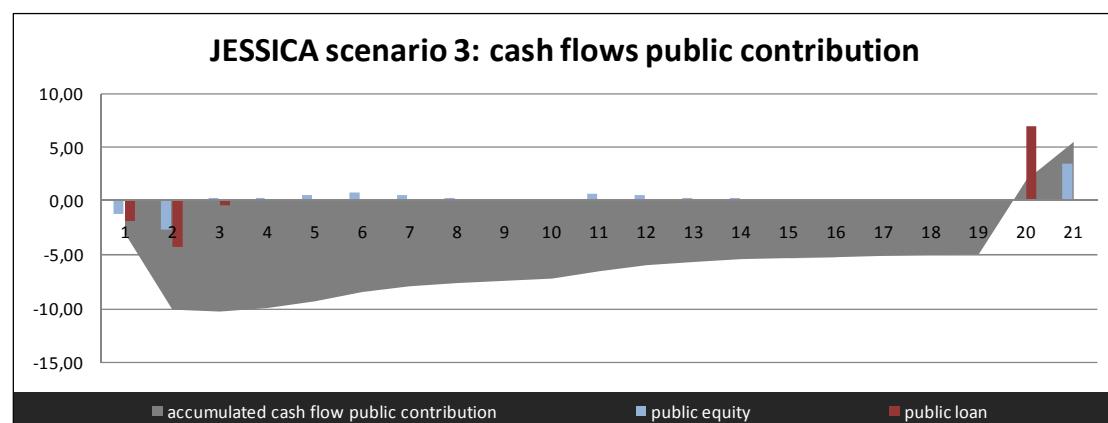
*Table 11: JESSICA scenario 3: results*

<b>JESSICA SCENARIO 3</b>		
<b>project IRR</b>		<b>13,7%</b>
<b>investments (in Mio of euro)</b>		<b>ROI</b>
land (sub. debt)	22,4	6,00%
<b>private equity (UDF)</b>	<b>4,2</b>	<b>9,13%</b>
<b>public equity (UDF)</b>	<b>4,2</b>	<b>9,13%</b>
commercial loan	9,1	5,50%
<b>government loan (UDF)</b>	<b>6,8</b>	<b>3,00%</b>
grant	0,0	0,00%
total sources of finance	46,7	
total cash attribution	24,3	
<b>total public (JESSICA) funding</b>	<b>11,0</b>	

Source: Financial model IDEA Consult

The full 11 Mio are only slowly paid back, because of the low interest on the loan. However, around year 10, approximately half of the 11 Mio is already recuperated. Of course, funding agreements could foresee in an early step-out of the public partner.

*Graph 9: JESSICA scenario 3: revolving of public funds*



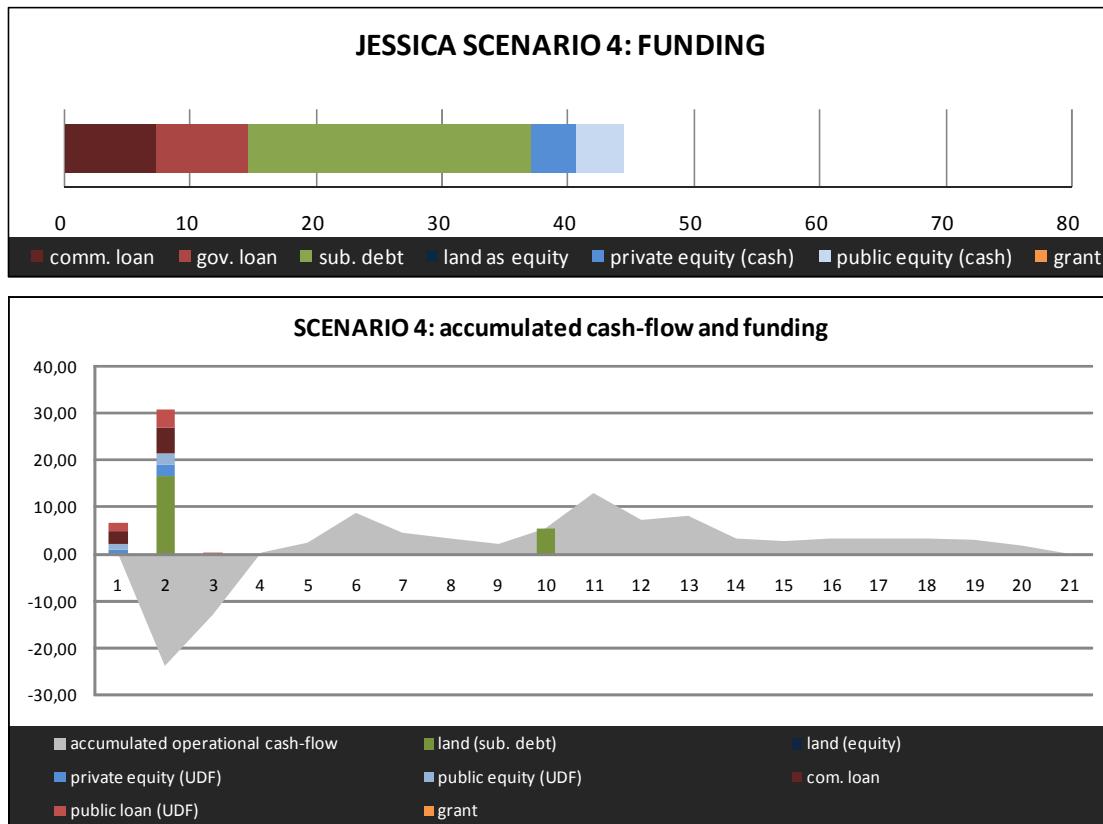
Source: Financial model IDEA Consult

#### **JESSICA SCENARIO 4: optimisation through smaller profitability gap on parkings**

Ultimately, a benefit of the JESSICA-framework is also the fact that it will lead project promoters to more intelligent and optimised projects. A specific issue of the Loop is the profitability gap on the parking development. Therefore, in another scenario we test the effect of an optimisation of the parking development by increasing the commercial value (or the revenues) with 20%. For the rest, this scenario is the same as scenario 3, with an additional government loan.

So the funding is similar as under scenario 3:

Graph 10: Funding structure of JESSICA scenario 4



Source: Financial model IDEA Consult

Evidently this leads to higher returns for the equity partners in the project.

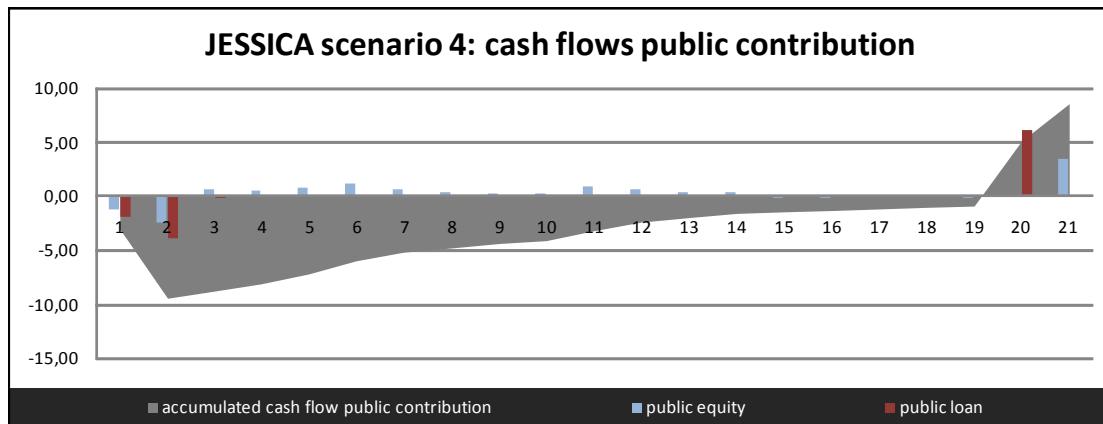
Table 12: JESSICA scenario 4: results

JESSICA SCENARIO 4		
project IRR	<b>16,9%</b>	
<b>investments (in Mio of euro)</b>		<b>ROI</b>
land (sub. debt)	22,4	6,00%
private equity (UDF)	3,7	<b>17,26%</b>
public equity (UDF)	3,7	<b>17,26%</b>
commercial loan	7,2	5,50%
government loan (UDF)	7,3	<b>3,00%</b>
grant	0,0	0,00%
total sources of finance	44,3	
total cash attribution	21,9	
<b>total public (JESSICA) funding</b>	<b>11,0</b>	

Source: Financial model IDEA Consult

Returns are now significantly higher than in the basic scenario. This is also reflected in the cashflow for the public contribution, where the 11 Mio of euro is paid back quicker.

Graph 11: JESSICA scenario 4: revolving of public funds



Source: Financial model IDEA Consult

## SCENARIO 5: preferential returns for private partner in UDF

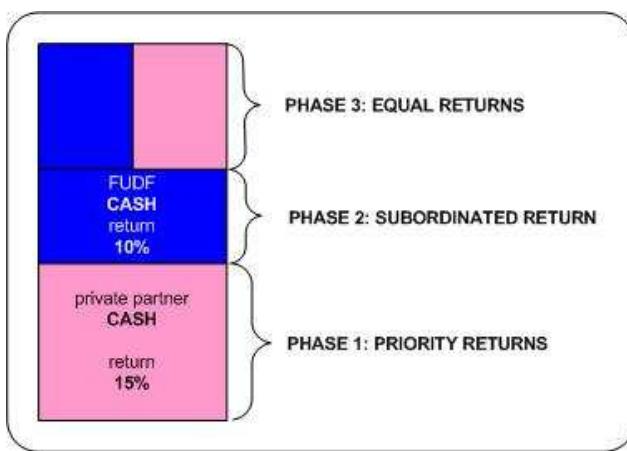
Finally, legislative provisions on JESSICA create an opening towards attributing preferential returns to private shareholders, even if this raises a question towards state-aid.

(*Commission Regulation 1828/2006 art. 43 §7 indeed says that returns from investments through UDFs may be allocated preferentially to private investors up to the a market-conform level laid down in the by-laws of the UDF, supplementary returns should be allocated preferentially among all financing co-partners.*)

It is advised that this scheme should be first submitted to the EC for approval before implementation within a UDF.

Therefore, in a last scenario we test the effect when the private shareholder of the UDF gets a preferential dividend over the public shareholder. This is structured as shown in the following figure:

Figure 8: Preferential return scheme



Source: Financial model IDEA Consult

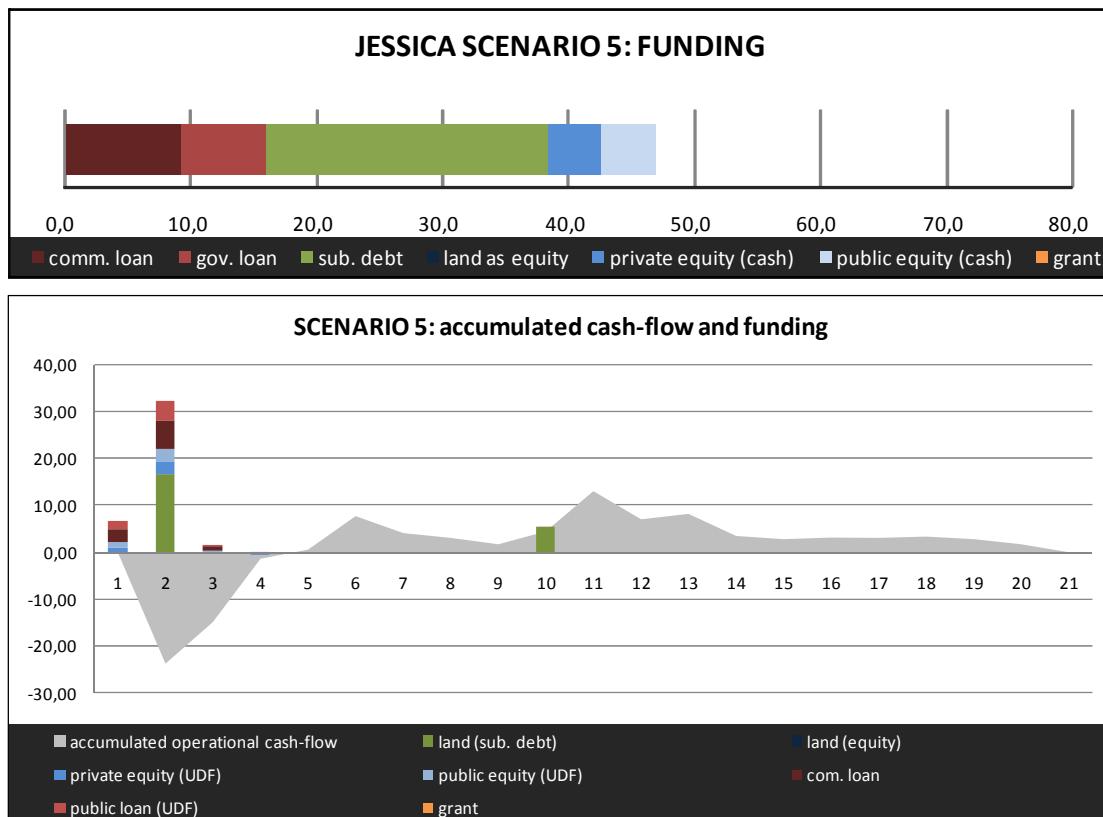
So, returns are structured as follows:

- In a first phase returns go exclusively to the private sector investor, until he meets a minimum return (on NPV-basis) – set at 15% based on market insight.

- In a second phase returns go exclusively to the public sector investor, until he meets a minimum return (on NPV-basis) – set at 15%
- Eventual additional returns are shared equally

Apart from this, the funding is equal as in scenario 3 (with an additional government loan).

*Graph 12: Funding structure of JESSICA scenario 5*



Source: Financial model IDEA Consult

As foreseen, this leads to different returns for public and private shareholders.

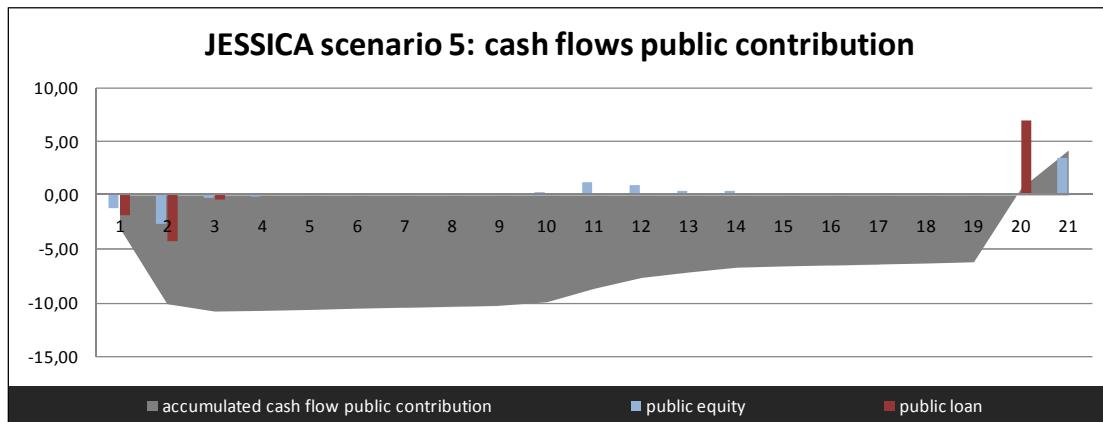
*Table 13: JESSICA scenario 5: results*

JESSICA SCENARIO 5		
<b>project IRR</b>		<b>13,7%</b>
<b>investments (in Mio of euro)</b>		<b>ROI</b>
land (sub. debt)	22,4	6,00%
private equity (UDF)	4,2	<b>14,65%</b>
public equity (UDF)	4,2	<b>6,63%</b>
commercial loan	9,1	5,50%
government loan (UDF)	6,8	<b>3,00%</b>
grant	0,0	0,00%
total sources of finance	46,7	
total cash attribution	24,3	
<b>total public (JESSICA) funding</b>	<b>11,0</b>	

Source: Financial model IDEA Consult

But logically, through this subordination of dividends for the public shareholder, the pay-back for the public contribution goes much slower. In the following graph, one can detect dividend payments to the public partner after year 10.

Graph 13: JESSICA scenario 5: revolving of public funds



Source: Financial model IDEA Consult

#### 6.2.4 Overview and conclusions

The following table synthesizes again the results of the tested scenarios.

Table 14: Overview of results from funding scenarios the Loop

	BASIC SCEN.	JESSICA SCEN. 1	JESSICA SCEN. 2	JESSICA SCEN. 3	JESSICA SCEN. 4	JESSICA SCEN. 5
project IRR	17,59%	13,88%	13,70%	13,69%	13,24%	13,69%
finance	inv. ROI	inv. ROI	inv. ROI	inv. ROI	inv. ROI	inv. ROI
land (sub. debt)	0,0	7,29%	22,4	6,00%	22,4	6,00%
land (equity)	22,4	7,29%	0,0	n/a	0,0	n/a
private equity	8,6	7,38%	0,0	n/a	0,0	n/a
private equity (UDF)	0,0	n/a	4,2	7,51%	4,2	9,03%
public equity (UDF)	0,0	n/a	4,2	7,51%	4,2	9,03%
guarantee (UDF)	0,0	n/a	0,0	n/a	0,0	n/a
com. loan	16,2	5,50%	15,8	5,50%	15,9	4,50%
public loan (UDF)	0,0	n/a	0,0	n/a	6,8	3,00%
grant	11,0	n/a	0,0	n/a	0,0	n/a
total sources of finance	58,2	46,6	53,5	46,7	44,3	46,7
total cash attribution	35,8	24,2	31,1	24,3	21,9	24,3
total public (JESSICA) funding	0,0	4,2	11,0	11,0	11,0	11,0

Source: Financial model IDEA Consult

Albeit that the Loop is very specific project (large project, parking exploitation gap and long-term planning) and that certainly other funding scenarios and variables can be tested, the following conclusions can be drawn to the JESSICA framework.

<b>CONCLUSIONS TOWARDS JESSICA</b>	<ul style="list-style-type: none"> <li>■ The proposed grants for the Loop (11 Mio of euro) could be replaced by financial engineering instruments as defined under the JESSICA framework.</li> <li>■ 11 Mio of euro of public permit to offer an attractive mix of financial instruments (public equity, government guarantees, government loans) towards a total investment volume of 150 Mio.</li> <li>■ Using 11 Mio of euro of grants though JESSICA for projects such as the Loop can become revolving when an intelligent mix of financial engineering instruments is settled.</li> <li>■ By intelligent application of these financial engineering instruments, attractive returns for private sector investors can be given.</li> <li>■ Besides the public contribution will become revolving, permitting the Flemish Region to undertake new projects with the realised returns and capital pay-backs.</li> <li>■ Specifically, structuring the deposit of land in a project as a subordinated debt, can have important leverage effects. The JESSICA-framework is therefore very useful for the realisation of projects on existing land portfolios of cities or regional administrations or other government bodies.</li> <li>■ Within a portfolio approach, long-term projects should be combined with short-term realisation in order enhance the turn-around of the public money.</li> <li>■ Scenarios show that working with preferential return is useful to balance private sector returns, but can also be avoided through utilisation of other financial engineering instruments. However in projects within deprived areas, this might be more necessary and also easier to argue within a notification to the EC.</li> </ul>
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## 6.3 Possible JESSICA pilots

### 6.3.1 Selection criteria

Based on the JESSICA scheme and the evaluation of the Flemish context, the following selection criteria can be used for selection of possible Flemish JESSICA-pilots:

#### **Focus of the project**

First of all, projects should answer to specific Flemish investment needs or ambitions. These can be found in following documents:

- Flemish Structural plan: this planning document sets the spatial ambition for Flanders but also defines some exclusive domains for the Flemish Region (P.e. some industrial zones, sea harbours, airports,...)

- Coalition agreements (*regeerakkoord*): The coalition agreement for a term could indicate specific actions or projects in which the Flemish Government should take/claim initiative.
- City contracts: this is actually a bottom-up initiative in which cities demand collaboration of the Flemish Government. This could be turned around: a list of strategic projects the Flemish Government wishes to realise within cities.
- Specific sectoral investment initiatives: within specific domains, the Flemish Government already announced an investment approach, p.e. football stadiums or youth hostels.

In the case the Flemish Government takes the decision to reformulate the ERDF-program in order to implement a full JESSICA-strategy, the projects should also fit within the ERDF-framework:

- Innovation and the knowledge economy: this could lead to business parks or knowledge campuses,...
- Environment and rehabilitation: this could lead to brownfield development strategies, renovation of tourist infrastructure,...
- Transport and telecommunication services: urban infrastructural programmes

### **Integrated urban development plan**

The JESSICA framework states that projects to be financed by JESSICA instruments should be part of an integrated urban development plan. An integrated urban development plan exists under various forms in the Flemish planning context (master plan, legislative documents such as a RUP, see infra).

Given the ambition of JESSICA to enhance an evolution towards public-private coproduction, this is an important issue. Traditionally, private parties are invited to participate when projects are fully defined by public planning administrations. Within JESSICA, private parties should participate in the project definition in a quite early stage, in order to bring knowledge and creativity to come to sustainable urban developments.

The integrated urban development plan ideally should be defined in a status of an master plan that sets the main public ambitions for the area development. Given the rigidity of formal planning documents (e.g. RUP) and of the procedures to settle them, these should better set up after engagements of private parties, in order to make optimisations, revisions and detailing possible

### **State of play**

JESSICA will be in certain ways new to the urban development practice in Flanders. On the other hand, lots of projects are currently in execution or being prepared for execution. JESSICA-instruments should thus be reserved for project which are currently still in an early stage.

The importance of clear public goals and agreements on public-public collaboration (e.g. between a semi-public land owner and a public regulatory body) has already been stressed at various occasions.

Following indicators could be used, to test if a project is ready for a JESSICA:

- Public goals are clearly defined and eventually put in a policy covenant with definition of tasks, a calendar and financial engagements
- A spatial and functional master plan exists, which leaves important room for specification and optimisation.
- A RUP should not be drawn up yet, however public parties should be engaged to fully collaborate with set-up of the RUP
- No procedures for attracting private parties should already be set up, with exception of eventual parts of the project which can logically be separated.

Of course, JESSICA might in certain cases been used for projects that get stuck at a certain point in their development. A sort of "due diligence" should indicate if

there is enough room for implementing JESSICA-instruments. This could lead in certain cases to revisions of planning documents and other agreements.

Also, it can be indicated that JESSICA-instruments could be used for parts of larger development plans. The whole plan or certain other parts/phases could be further developed, where a certain part/phase can be isolated to a certain level.

## **Volume**

Flemish urban development projects with limited scale are rather well working in Flanders under a contractual approach. The participative approach rather finds its rationale in larger project for two main reasons:

- Overhead costs for procurement procedures and contracting can be better amortized.
- Financial stakes and risks become more important and less predictable.

Therefore the total investment volume is an important measure to test the readiness for a JESSICA. It is difficult to set fixed benchmarks in this respect, but 50 Mio of euro could be seen as a minimum.

In some cases, when developments are highly interrelated because of physical proximity (e.g. a bunch of smaller scale development sites in a deprived area) or when projects have an important economy of scale because the specialities demanded (e.g. brownfields, football stadium, knowledge centres,...) exceptions could be made.

## **Revenue potential**

Last but not least, JESSICA is about making public financial means sustainable. This means inevitably that projects should have enough revenue potential. Generally speaking, revenues should exceed development costs. However also this leaves room for interpretation:

Some types of development will never be profitable (e.g. heavily contaminated brownfields, social housing, cultural infrastructure), but are seen as important public goods/objectives. Within projects under JESSICA-instruments two types of situation could happen:

- The commercial parts are highly profitable, leading to superprofits which could finance non-profitable parts (=ideal situation)
- The non-profitable parts are too important to be entirely financed by the profitable parts. In this case some of them should be financially isolated from the project and taken in charge by public actors.

Once again this indicates the importance of leaving enough openings and creativity in the project definition and of thorough preparation of the project and the JESSICA procedure.

Like the previous criterion, this could also lead to a specific demarcation of the project, leaving non-revenue generating parts out of the project.

An other solution could lie in bringing non-revenue generating parts in a DBFM-approach. A financial evaluation by the public parties should indicate the preferred solution.

### **6.3.2 Possible JESSICA pilots**

The inception report cited some sources where JESSICA pilots could be found:

1. Projects figuring within the list of city contracts between the Flemish Region and the city
  - Petroleum Zuid, Antwerp
  - Mining site of Waterschei, Genk

- Arsenaal site, Mechelen
  - Scheldt Quays, Antwerp
  - Road and channel development, Bruges
  - North-South-connection, Kortrijk
  - Seasonal mobility, Ostend
  - Completion Ringroad, Sint-Niklaas
  - Tunnel development on Ringroad, Turnhout
  - Multipurpose event infrastructure, Aalst
  - Public library, Roeselare
  - C-mine, Genk
  - Oude Dokken, Ghent
  - The Loop, Ghent
  - Blue Boulevard, Hasselt
  - Vaartkom Leuven
2. Other large scale mixed use developments in major cities, figuring within local policy agreements (and recipients of urban renewal grants or ERDF)
- Ghent Sint-Pieters-station
  - Ghent Dampoort-station
  - Antwerp Luchtbal
  - Antwerp Eilandje
  - Antwerpen Lobroekdok
  - ...
3. Projects actually profiting from ERDF-subsidies
- Mechelen: downtown shopping area
  - Genk: city square
  - Roeselare, Station area
  - Antwerpen, Kievit area
  - Vilvoorde, Watersite
  - Ghent, Ledeberg leeft
  - Ghent, St-Pieters-station
  - ...
4. projects initiated by concept subsidies from the urban renewal policy:
- "City porch" Bruges
  - Urban living at the Leie, Deinze
  - Blue Boulevard, Hasselt
  - Station area Lier
  - Hoedhaar, Lokeren
  - Roeselare Centraal, Roeselare
  - Zurenborg Antwerp
  - hospital site Tienen
  - Dossin Mechelen
  - ...

## 7 THEME 4: A FLEMISH JESSICA STRUCTURE

<b>Research objective 4</b>	To propose adapted structures for the implementation of JESSICA in the Flemish Region including description of pilot JESSICA Funds.
<b>Research question 2</b>	Presentation of budgetary implications for MAs of using JESSICA, including comparative cash-flows showing the difference between employing current vs. JESSICA mechanisms (revolving instruments), highlighting differences in timing, interest income, etc. Demonstration of how the leverage effect of existing instruments for urban renewal projects financing can be increased.
<b>Research question 3</b>	Assessment of non-budgetary implications for MA of using JESSICA regarding volume, quality (including sustainability) and timing of Urban Regeneration investments, as well as how JESSICA can contribute to improved quality and control.
<b>Research question 8</b>	Indications of the most appropriate and advantageous strategy to implement JESSICA in Flanders including: <ul style="list-style-type: none"> <li>▪ An evaluation of the option to establish a Holding Fund indicating the appropriate configuration to be established in the Flemish Region, including the scope of its activity the governance and managerial aspects, costs, advantages from early disbursement of Structural Funds and potential for facilitating the establishment of UDFs.</li> <li>▪ Recommended structure of envisaged UDFs in the Flemish Region – number, aims, type (lending, equity, hybrid instruments, guarantees), size, governance, outlined investment strategy (geographical and/or thematic), potential for co-financing, etc. taking into account the need to minimise management costs and implementation bureaucracy. Indications on the type of projects and project portfolios that would be most suitable for each type of instrument (UDF) proposed. Recommendations should take account of urban priorities identified in different cities and other conditions identified in the Flemish Region, as well as any relevant legal constraints.</li> </ul>
<b>Research question 10</b>	Examination of the likely concrete operation of the proposed UDFs, with some case studies and/or simulations to test the efficacy of the recommended JESSICA implementation strategy. This evaluation should also include an estimate of management costs.
<b>Research question 11</b>	Recommendations on how to integrate issues on monitoring, quality control and reporting requirements.

## 7.1 Conclusions from previous analyses

### 7.1.1 *Regarding the (investment) focus*

- **Equity funding:** the basic premise of the Flemish JESSICA evaluation was to enhance a strong public-private coproduction in urban development. Overall private sector players were enthusiastic about this idea of equal sharing of risks. The case study of the Loop showed that equity participations in projects could be completed with other financial instruments such as land banks, guarantees and government loans in order to enhance leverage effects.
- **Tendency towards participative PPP in larger development projects:** an early evolution towards more co-productive forms of PPP's can already be seen within complex projects in larger cities with performing AGBs. A Flemish JESSICA-strategy could open this up to a larger target group.
- **High presence of grants:** It was shown that important grants for spatial and urban development exist in Flanders. It can be expected that JESSICA will not exclude grant finance in the future either. Creating a JESSICA delivery body could however enhance streamlining between different forms of Government funding.
- **Closed funds with clear focus and volumes:** Flanders is, as a developers' and investors' market, relative small with a limited number of financial players. To extend the amount of potential investors, it is necessary to make it attractive to invest for large private investment companies. This implies that the participating companies will demand a claim for developing at least a part of the real estate within a certain project.
- **Serving public interests with a private-sector approach:** one of the stated benefits from the JESSICA-framework is bringing the best of public and private sector together. Inspired by urban development vehicles like the English BLUEPRINT, the UDF should work with high flexibility, politically controlled but without constant political interference. Within a business plan, clear mandates should exist where the UDF can take forward projects in an efficient and responsive way.
- **Bottom-up JESSICA approach:** given the current political situation regarding the Flemish ERDF budget, a bottom-up approach could be followed. Hereby a small fund of projects could be created, e.g. with focus on research parks. This fund of projects could then apply for funding within priority 1. Besides, if a (limited) group of cities could be convinced about the benefits of JESSICA and agree to set up an UDF, this could create an opening for revision of the OP, thus benefiting from the flexibility of the JESSICA-framework towards investment in urban projects.

### 7.1.2 *Regarding the structure*

The proposed JESSICA structure is based on observations made in previous chapters:

- **PMV as structuring channel for Flemish UDFs:** it has been indicated that PMV is the "established financing channel" of the Flemish Government. Because PMV and the Flemish Authority have an "in-house"-relationship (the Flemish Authority is 100% shareholder of PMV), the Flemish Authority is not obliged to pass over public procurement in charging PMV with missions against a public budget. Indeed, art. 5, §2, 4° of the Flemish Decree of 7 may 2004 foresees the possibility that PMV could carry out "specific missions" commissioned by the Flemish Authority without market consultation. The creation and the management of a HF and the preparation and management of UDFs could be seen as such a "specific mission". Recently PMV has structured various PPP-portfolio operations. Given the scope and ambitions of

JESSICA in Flanders, it seems logic to build on this expertise. Keeping in mind that more UDFs would be desirable and that the number will grow in time, a Holding Fund will be necessary. Given the situation of a lack of pure financial investors in Flanders, it will be a 100% public owned fund.

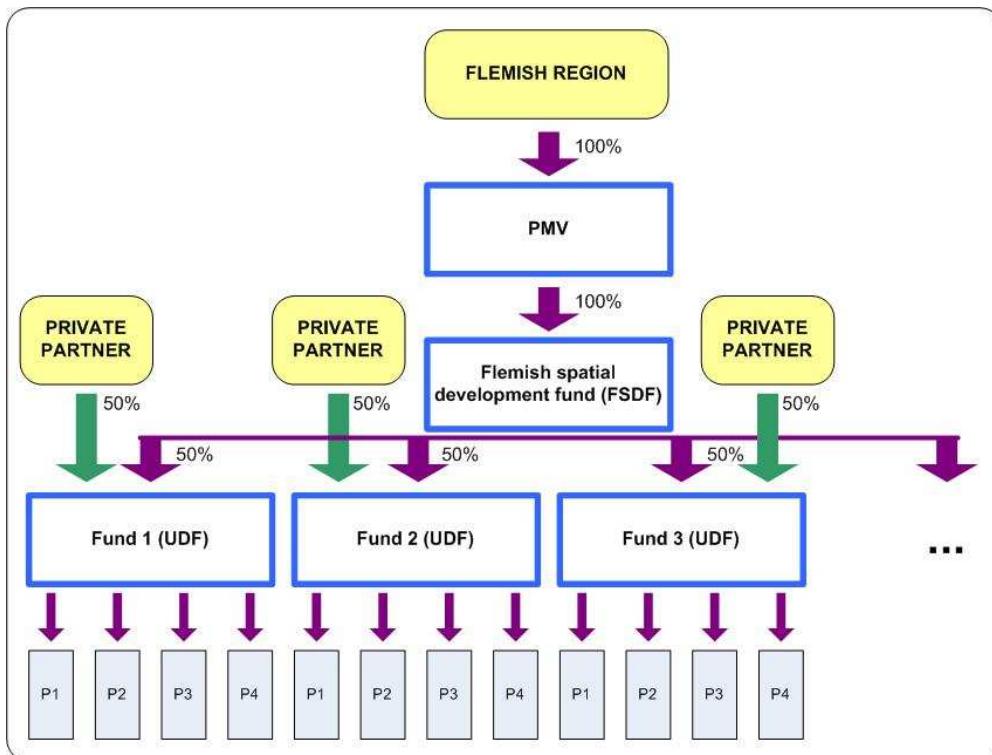
- **Involvement of the knowledge centre PPP:** As to the UDFs at Flemish level an involvement of the PPP knowledge centre will be required under the Flemish PPP decree. This is also an extra guarantee that the knowledge and expertise of this unit is brought into the projects.
- **Portfolio-approach as added value:** some private investors highly believed in the portfolio approach, under the condition that this portfolio is clearly established and has a thematic scope. This portfolio should take forward some projects of regional importance. Besides, the portfolio could lead to economies of scale, both in the tendering as in the project execution itself.
- **No JESSICA-HF in the short run:** both political and administrative responsibles firmly indicated that the Flemish OP will certainly not revise before the regional elections of June 2009. A fear exists that this will cause and endless political discussion between cities and the Region: cities count on specific ERDF-funding within priority 4 for projects already set on their wish list. By doing so (or by not doing so) no rationale exists for the establishment of a Holding Fund for temporarily parking of financial means. It has to be stressed that the Flemish Region will not benefit from temporary interests on the parked ERDF-money in this case.

## 7.2 Proposed General structure

### 7.2.1 General structure

In a first phase, whilst working without ERDF-support, a structure for funds in Flanders could be the following:

*Figure 9: General structure – generic proposal*



The proposed model has three levels:

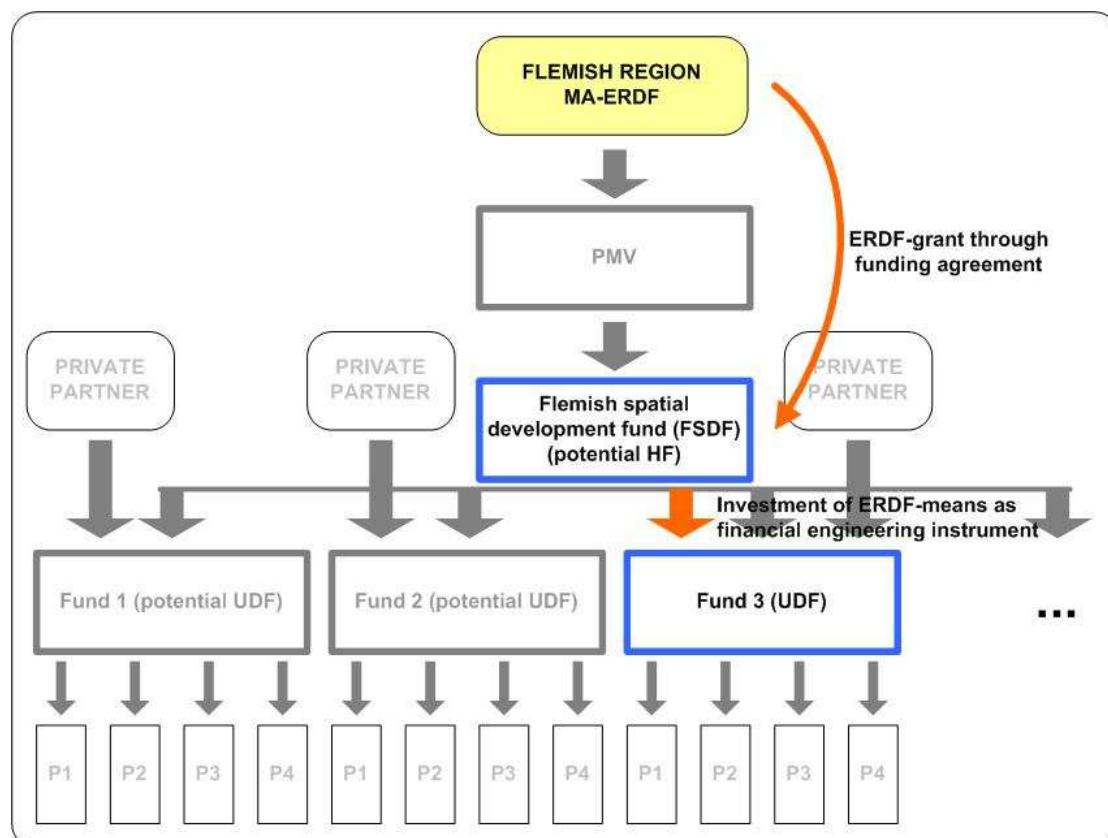
- Projects: these can have different legal forms but will commonly be structured as SPV
- UDFs: these are clusters of projects, put together in a UDF
- the Spatial Development Fund Flanders, which will act as HF, in the short term as a financial holding structure of different UDFs, when eventually ERDF-means will be attributed, it will become a JESSICA-HF.

The HF is a 100% public Fund; the clusters (UDFs) are public-private owned (on a 50%-50% base) and the projects are 'daughters' of a UDF. This structure gives the Flemish Government the opportunity to stimulate and participate within several spatial projects.

The given structure has also the advantage that it does not demand very long (e.g. 20 years or more) public-private partnerships, which is not preferred in Flanders. It will be also very flexible for the future in terms of finding new partners, new kind of projects and new (financial) development strategies.

The Jessica structure fits easily within this general model, as indicated in the following figure and further explained in chapter 7.3.

*Figure 10: General structure – working with ERDF*



### 7.2.2 Types and number of UDFs

Three kind of UDFs can be considered:

- Land banks, based on existing institutional land portfolios (for elaboration, see chapter 7.4)
- 1-city-UDFs, which will be a collaboration between 1 city and the FSDF. (for elaboration, see chapter 7.5)

- Multiple-city-UDFs, which combines projects in several cities. (for elaboration, see chapter 7.6)

Indeed, the number of UDFs will strongly depend on market conditions and the enthusiasm created with cities. The following estimate can be given:

- **Regional land banks:** some opportunities have already been indicated:
  - Land stock of the Public Education
  - The land stock grouped under FSI
  - Existing administrative buildings of the Flemish administration, which will be freed after the reorganisation and centralisation in new administrative buildings (1 per province).
  - ...
 Therefore, we estimate a potential of 3 to 5 of these types of UDFs that could be founded over the coming 5 years. The potential of using ERDF-resources for these UDFs will depend on an eventual thematisation of projects figuring in the UDF.
- **1-city-UDFs:** the potential of 1-city UDFs depends on the potential deal-flow in projects a city could generate. In Flanders, the 2 major cities (Antwerp and Ghent) are capable of having an important deal-flow. Eventually some other central cities could be added.  
Therefore, we estimate a potential for minimum 2 1-city-UDFs (Antwerp and Ghent,), eventually up to 5 when some other central cities can be added. These UDFs could potentially benefit from ERDF-funds out of priority 4.
- **Multiple-city UDFs:** for cities, which don't have enough deal-flow potential, multiple-city UDFs could be created. The composition of these UDFs will be based on a call-system, which could be organised on a yearly or two-yearly basis.

## 7.3 The Spatial Development Fund Flanders (FSDF)

### 7.3.1 Description, tasks and objectives

The main objectives of this fund are:

- to detect potential projects where ERDF and other funds may have a added value (usually projects which will not be developed by private actors)
- do research on the possibilities of making feasible projects
- Negotiate with other (local) public partners, cluster them in a UDF and search for a private partner.

This has to be done within the framework of a policy- and business plan, approved by public stakeholders (Flemish government).

The key rationale of the Spatial Development Fund Flanders is to (re)develop spatial projects, which are not picked up by private actors and where the local public actors need support from the Flemish government. The FSDF will take initiatives, but will use both local (public) actors and private partners. The main added value to this partners is the supply of venture capital, together with knowledge of financial structures for spatial projects.

### 7.3.2 Structure and funding

The FSDF (Holding Fund) will be a 100% public fund, structured under PMV. Where in theory a separate accounting within PMV could be sufficient as a structure, it is recommended to make it a separate legal structure. Indeed, the FSDF will be the level where in the long run the public funds will revolve. In order

to have more guarantees for isolation of these funds from other activities from PMV (e.g. SME-finance), a separate fund seems more appropriate.

The FSDF will be structured as an NV (*naamloze vennootschap – Belgian-law equivalent of a plc – public limited company*). The reasons are the following:

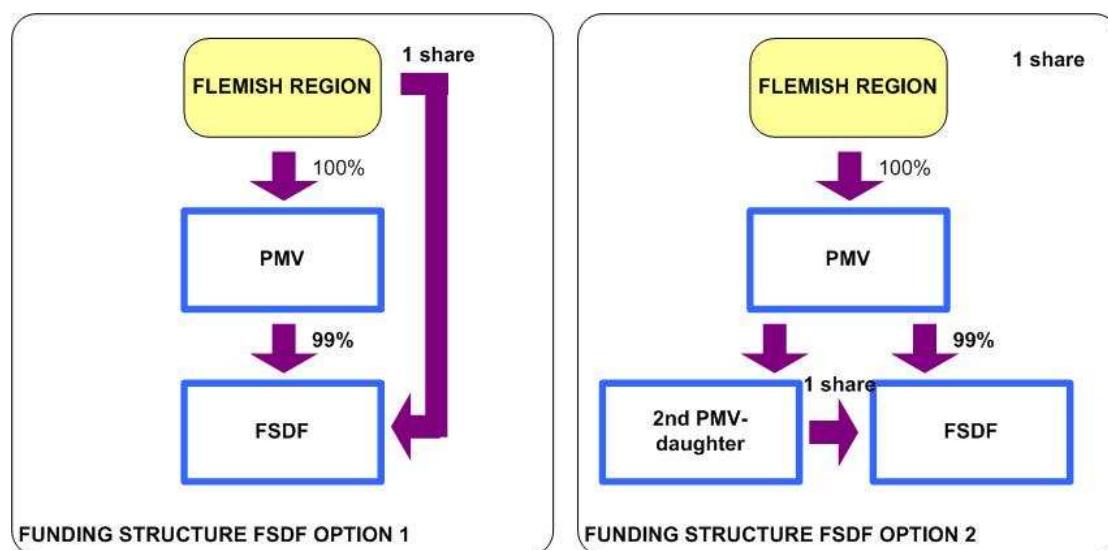
- The NV is a typical “capital firm” with clear limitation of liability of the shareholders
- The legal framework of the NV is well developed and sets out already important lines towards independent governance and monitoring (installation of a board of directors, full annual reporting,...)
- Most funds currently structured under PMV take the form an NV, so it is a framework well known within this organisation.

One of the important features of a NV is the fact that it needs two founders and it should also keep to shareholder through its lifetime, in order to guarantee the limitation of liability to the capital deposit. For that purpose, two scenarios could be considered, each with specific benefits:

- The foundation by PMV and one of its own daughters. The main benefit of this scenario is the fact that this can be done quickly without interference with legislative provisions.
- The foundation by PMV and the Flemish Authority. This should be done through a specific foundation decree, which has to pass parliamentary proceedings. A benefit of this scenario is the fact that this parliamentary approval will create a political support for JESSICA and the instrument will be seen more as an important part of the Flemish city investment policy.

In both scenarios, PMV will be 99% founder and owner of the FSDF – one share or 1% will be owned either by a PMV-daughter or directly by the Flemish Government.

*Figure 11: 2 options for funding of the FSDF*



Funding of the FSDF will be done through a capital injection in PMV, to be decided by the Flemish Government. In a second phase, extra capital from ERDF can be added (see further down). These capital injections will be regularly repeated as the number UDFs increases, until a “steady state” is reached in which the FSDF will be entirely self-revolving.

The FSDF will be 50% owner of all UDFs (see further down).

### 7.3.3 Management & governance

The FSDF will be managed by the Participatie Maatschappij Vlaanderen (PMV). The PMV already has the skills and experiences needed for developing complex (urban) projects and managing financial participations.

Legally, the FSDF will have a board of directors and an annual meeting of the shareholders.

The board of directors will be the central governance body of the FSPF. The main decisions that have to be taken within the FSDF will be concerning the preparation and set-up of an UDF. These decisions can be well prepared and well planned, so there is little need for decision power (through delegation) on a day-to-day basis.

In order to guarantee independent and professional governance, there should be compliance with the Belgian "corporate governance"-framework.

The composition of the board will be an uneven number, and should not be too extensive in order to control efficiency and management costs. A number of seven directors could be suggested:

- 3 representatives of the main shareholder PMV
- 1 representative of the Flemish Government (e.g. designated by the Flemish Minister for Urban Policies)
- 2 financial/economic experts (independent directors), 1 of those could be indicated by the Knowledge center PPP.
- 1 expert in the field of urban development (independent director)

### 7.3.4 Staffing and operating costs

The **operating cost** will be limited. Staff and study costs are needed for the preparation of projects, at a level which will be just enough to bring them to the market (as a cluster/UDF). This could be done by the staff of PMV, the main shareholder.

Operating costs can be estimated as follows:

*Table 15: Estimate of management costs*

preparation costs UDF			
FTE's	cost/FTE	years	total
FDSF-manager	0,25	150.000	2 75.000
supportive staff	1	100.000	2 200.000
secretary	0,5	70.000	2 70.000
			<b>345.000</b>
advisory	cost/study	# projects	total
masterplanning	100.000	4	400.000
financial advisory	50.000	4	200.000
legal advisory			200.000
			<b>800.000</b>
			<b>1.145.000</b>
management costs HF (management of a running UDF)			
FTE's	cost/FTE/year		total
FDSF-manager	0,1	150.000	15.000
supportive staff	0,25	100.000	25.000
secretary	0,1	70.000	7.000
			<b>47.000</b>
advisory	cost/study	# projects	total
financial advisory	20.000		20.000
legal advisory	20.000		20.000
			<b>40.000</b>
			<b>87.000</b>

### 7.3.5 Working with ERDF

ERDF funds from the Flanders budget 2007-2013 which are currently available can be brought into the presented structure. The most efficient level is the Flanders spatial development fund. These ERDF funds can be earmarked within the Holding Fund, and be used specific for one or more clusters (UDFs) with projects fitting up with one of the Priorities. The funds will return to the Holding Fund after the projects are finished and an UDF is discontinued. Afterwards, the funds can be used again for new investments.

The following strategies could be followed:

- **Apply for a grant within priority 1 or 2:** this bottom-up approach could be used to finance a thematic UDF which works on the theme of knowledge economy. As stated, chances for convergence between the portfolio/project and the OP will be limited.
- **Negotiate a contribution from priority 4:** the available funds in priority 4

In both cases, the FSDF will conclude a funding agreement with the MA. This agreement will contain the following elements (as defined in Commission Regulation 1828/2006 Art. 44 §1-2):

- **References to urban evaluation studies** that detail the investment gap in cities in Flanders, such as the current JESSICA evaluation report, Witboek Stedenbeleid and the relevant section of the OP.
- **Terms and conditions** for (financial) contributions from the MA to the FSDF
- **Models** for calls for EOI that will be used in the selection of investment partners for UDFs, even as models for evaluation, appraisal and selection of these private sector investors.
- **Investment policy** (as relevant for ERDF funding), specifying in which projects/plans/cities the ERDF-contribution will be used.
- **Monitoring and reporting:** specifying the scheme for monitoring and reporting from the HF to the MA.

The funding of the FSDF through a funding agreement should be done in a correct way regarding the budget. The HF will then select private partners and this through a public procurement contract within the meaning of the provisions of the PPL.

Once the UDF established, it will make sure that all expenditure is in accordance with the eligibility criteria defined the EC and the MA. This might need a double accounting system and specific reporting to the MA (via the HF).

## **7.4 The UDF type 1 (land portfolio)**

### 7.4.1 Description, tasks and objectives

A first kind of UDF could be based on existing land portfolios that exist within the Flemish Authority or other public bodies. Examples are the following:

- The portfolio of FSI
- Land of the Ministry of Education
- ...

Generally speaking, we would not limit the scope of these UDFs from a geographical point of view, given the fact that these existing portfolios will be spread over the Region. However, concrete UDFs can have a specific geographical limitation.

The FSDF will do a screening of these portfolios and make a relevant selection to group in an UDF. This selection can be based on:

- Potential financial performance: indeed all of these portfolios should have a revenue generating profile. However a first selection could be based on the idea to generate some quick wins.
- Thematic consistency: When the FSDF wishes to draw ERDF-means towards these UDF, the theme or content of the development should comply with the OP and/or the ERDF-framework
- Structuring of the UDF: depending of the existing legal situation of the land portfolio, the specific legal and financial structure may vary.

The FSDF may also put forward some specific issues related to ambitions, quality management that should be tackled in project execution.

#### 7.4.2 Structure and funding

As mentioned before, structuring of a land bank may vary based on specific legal or financial situations. The following scenario can be seen as a generic approach.

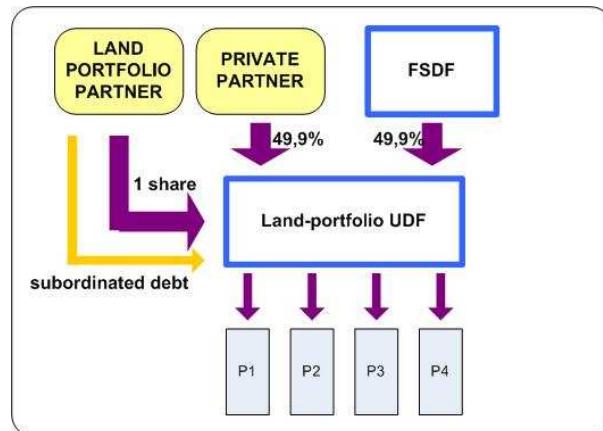
Basically the UDF will be seen as a NV, founded by the FSDF and the private partner after a procurement procedure. The existing land portfolio could be brought in, structured as subordinated debt, as was indicated under theme 4 (case study the Loop).

In order to respect enough independence and to avoid conflicts of interest in project realisation and SPV-finance, two clauses could be added in the call for proposals:

- Investors should not have direct links to construction companies. Building contractors will always be selected through a procedure that ensures enough competition and quality management
- The project finance (through the SPV) will always be done at best conditions found on the market. Providing (equity) finance to the UDF should not automatically give rights to finance project SPVs.

However, in a NV with equal participation of two main shareholders, the number of shares should be unequal in order to obtain efficient governance. Therefore, 1 share or 1% of shares should go to a third shareholder. It seems logic to take this opportunity to create involvement of the land partner and to make him a minority shareholder. In cases where this would not be possible, a third independent shareholder has to be found.

*Figure 12: Land portfolio UDF – generic proposal*



#### 7.4.3 Governance and management

The UDF will have similar organs as the FSDF: a board of directors and a shareholders meeting.

A big difference will lie in the fact that the UDF will take more decisions on a day-to-day basis, related to projects which they finance. Therefore, the UDF should have a director with delegations (to be defined by the board).

The board should be composed and handle in respect to the Belgian "corporate governance"-framework.

A typical composition of the UDF-board could be:

- 2 representatives of the FSDF/PMV
- 2 representatives of the private sector investor
- 1 representative of the land portfolio holder.

#### 7.4.4 Staffing and operating costs

The operating costs and staffing will mainly be covered by the private sector player. Because of the limited scope and duration of the UDF, it makes no sense to fully staff the UDF.

The settlement of the management fee will be part of the procurement procedure of a private partner.

Note the under JESSICA and by using ERDF-resources, management costs may not exceed, on a yearly average, for the duration of the assistance 3% of the capital contributed from the operational programme or the holding fund to the financial engineering instrument.

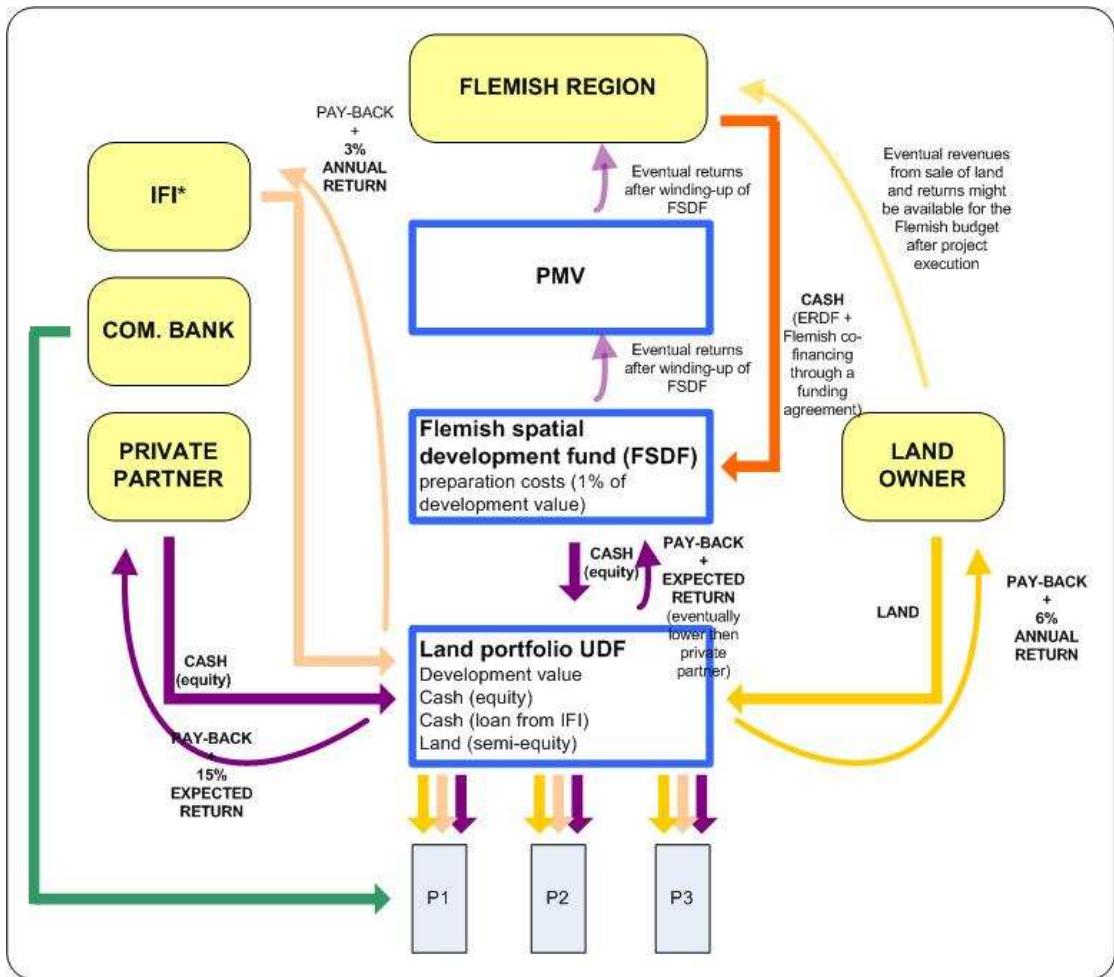
#### 7.4.5 Financial performance

*All numbers mentioned hereunder should be seen as averages and indications of ranges.*

The size and financial structure of a land portfolio may vary importantly, related to the origin of the portfolio, but the following indications can be given:

Based on these considerations and on the results brought forward in the study on the Loop (JESSICA SCENARIO 5), the following basic financial scheme can be indicated:

Figure 13: Land portfolio UDF – financial scheme



The following remarks can be made:

- Available ERDF-cash to allocate within the UDF will depend on the thematic focus that will be laid out in the projects. The source (priority) of this ERDF-grants will depend on the identified thematic convergences. Alternatively, it could be funded with Flemish funds.
- A low-interest loan could be demanded by the UDF towards an IFI. This loan might also be inserted on project level or at HF-level, depending on exact timing and necessary amounts.
- In the case that the land belongs to a Flemish regional administration, the recuperated value of the land and its eventual interests will be available for the Flemish budget. The current value of this land could eventually cover a Flemish regional cash investment.
- Eventually, by winding-up of the HF, available cash could flow back to the Flemish Authority (over PMV).

#### 7.4.6 Procurement – selection of a private partner

The procurement procedure or selection of a private partner will be structured as specific procedure (procedure "sui generis") and will mainly be structured around the following questions:

- Valuation of the land portfolio
- Vision and strategy on the development of the land portfolio
- Investment proposal
- Quality monitoring system

- Offer on management and services

The terms and conditions for contributions, from both the FSDF and the private partner, will be set out in a funding agreement. This will include:

- the investment strategy and planning;
- monitoring of implementation in accordance with applicable rules;
- an exit policy for both parties
- The winding-up provisions of the financial engineering instrument, eventually including provisions to prolong the collaboration in time or to include new projects in the UDF.

## 7.5 The UDF type 2 (1-city-UDF)

### 7.5.1 *Description, tasks and objectives*

This type of UDF will be collaboration between the FSDF, a city and a private sector-investor in order to develop a consistent portfolio of projects within the territory of the city:

- Portfolio of urban renewal projects
- Portfolio of urban activity zones
- Revolving property-renovation fund in a deprived area
- Redevelopment of former administrative buildings
- ...

As explained earlier, the scale of the city should be sufficient to come to a project portfolio with enough economy of scale. Therefore we suggest limiting the scope of this formula to the 13 central cities. It can be expected that only part of them will take this opportunity forward.

The city will contact the FSDF in order to compose a UDF. The FSDF will do a screening of the proposed portfolio/projects and make a relevant selection to group in an UDF. This selection can be based on:

- Potential financial performance: indeed all of these portfolios should have a revenue generating profile. However a first selection could be based on the idea to generate some quick wins.
- Thematic consistency: When the FSDF wishes to draw ERDF-means towards these UDF, the theme or content of the development should comply with the OP and/or the ERDF-framework. Both priority 1 and 4 objectives of the OP are relevant for a potential thematic UDF.
- Structuring of the UDF: depending of the existing legal situation of the land portfolio, the specific legal and financial structure may vary.

The city and the FSDF may also put forward some specific issues related to ambitions, quality management that should be tackled in project execution.

### 7.5.2 *Structure and funding*

As mentioned before, the structure of a UDF may vary based on specific legal or financial situations. The following scenario can be seen as a generic approach.

Basically the UDF will be seen as a NV, founded by the FSDF, the city and the private partner after a procurement procedure. Eventual land portfolios could be brought in similar as in the previous case.

The generic composition of the UDF will be the following:

- 49,9% FSDF (of total shares)

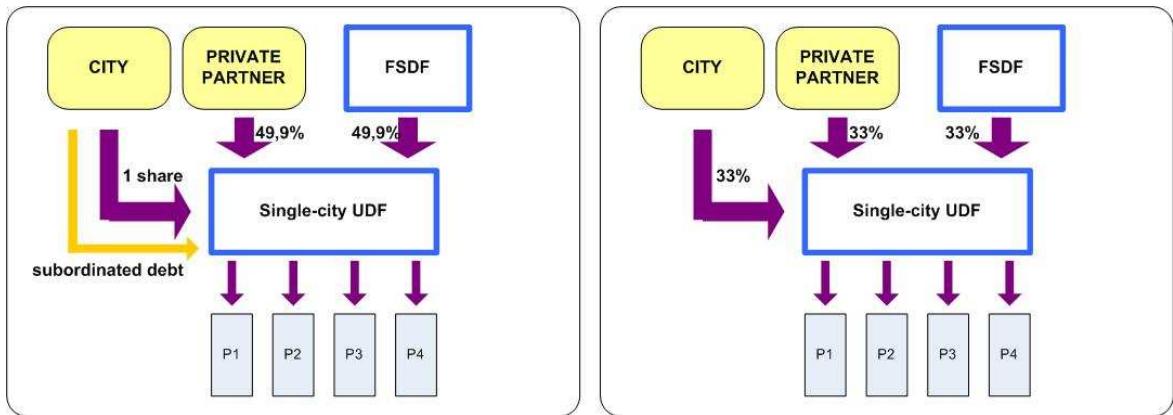
- 49,9% private sector investor (of total shares)
- 1 share for the city (this can be hold directly by the city conform art. 195 of the decree on municipalities or can be hold by the AGB after approval by the supervisory authority)

Alternatively, when the city wishes to have higher involvement or when more investors are needed, a structure could be:

- 1/3 FSDF
- 1/3 private sector investor
- 1/3 city

Also in this case, the shares could be directly hold by the city, but could also be structured under an AGB.

*Figure 14: Single-city-UDF – 2 generic proposals*



### 7.5.3 Governance and management

Also this kind of UDF should have, generally spoken, have a director with delegated powers.

A typical composition of the UDF-board could be:

- 2 representatives of the FSDF/PMV
- 2 representatives of the private sector investor
- 1 representative of the city.

These can vary depending on the funding structure.

Eventually, an investment committee could be installed that can advise the board on issues of:

- Project structuring
- Project quality
- Project content
- ...

Potential member of this investment committee can be:

- Knowledge PPP
- Senior investment manager(s) designated by of the private sector player
- The city's "bouwmeester" or the "Vlaamse Bouwmeester" (senior architect/urbanism, responsible for spatial quality in projects)
- Independent experts related to the scope of the project(s)

This investment committee should be equally composed between experts/members brought forward by the public partner and those brought

forward by the private partner. The investment committee should bring a collegiate advice to the board of directors.

#### 7.5.4 Staffing and operating costs

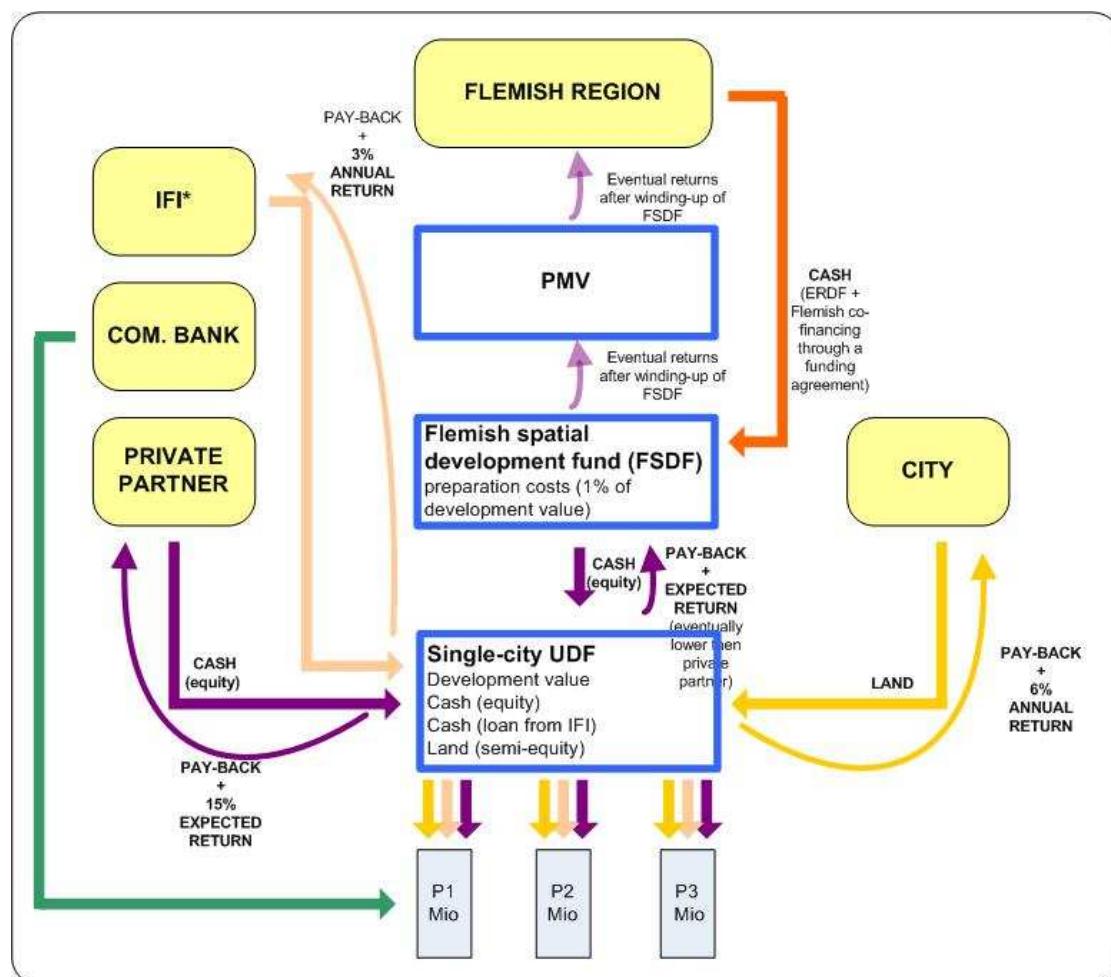
##### **Similar to previous type of UDF**

#### 7.5.5 Financial performance

*All numbers mentioned hereunder should be seen as averages and indications of ranges.*

With the same general assumptions as in the previous example, the following scheme could show the potential performance of the city UDF.

*Figure 15: Single-city UDF – financial scheme*



One can see that funds revolve in different ways:

- The investment done by ERDF-funds and eventual Flemish co-financing will be revolving within the UDF in a first phase. After execution of all projects within the UDF, the investments and return are recuperated within the FSDF. Within this fund, the money should be labelled for re-investment within the same city.
- If the projects are developments on land or buildings, owned by the city, also the latter will make a surplus on these, making available cash for new projects or for public investments within the project such as social housing, cultural infrastructure,...

As an alternative, cities could also participate in the equity of the UDF, as indicated above. Some of the same remarks as in the previous example remain:

- A low-interest loan could be demanded by the UDF towards an IFI. This loan might also be inserted on project level or at HF-level, depending on exact timing and necessary amounts.
- Eventually, by winding-up of the HF, available cash could flow back to the Flemish Authority (over PMV).

#### 7.5.6 Procurement – selection of a private partner

##### **Similar to previous type of UDF**

Specifically for this kind of UDF, winding-up provisions should detail the revolving of the funds towards future projects in the city. This is crucial to obtain support and interest from the cities. This objective can be realised by putting revolving funds (dividends, interests, paybacks,...) within the FSDF on a labelled account, destined for reinvesting in the city.

## **7.6 The UDF type 3 (multiple-cities-UDF)**

### 7.6.1 Description, tasks and objectives

For cities with only occasional projects, an alternative strategy could be developed in which projects of multiple cities are brought together in 1 UDF.

This could be organised through a yearly or two-yearly call where cities are invited to submit project proposals.

The FSDF will then do a screening of the proposed projects, will go in discussion with the city on potential optimisations and make a relevant selection to group in a UDF. This selection can be based on:

- Potential financial performance: indeed all of these portfolios should have a revenue generating profile. However a first selection could be based on the idea to generate some quick wins.
- Thematic consistency: When the FSDF wishes to draw ERDF-means towards these UDF, the theme or content of the development should comply with the OP and/or the ERDF-framework
- Structuring of the UDF: depending of the existing legal situation of the land portfolio, the specific legal and financial structure may vary.

The city and the FSDF may also put forward some specific issues related to ambitions, quality management that should be tackled in project execution.

The cities will then mandate the FSDF to bring their projects to the market. This mandating should be taken forward as a trigger to come to clear projects definitions, which will improve the private sector interest.

### 7.6.2 Structure and funding

As mentioned before, structuring of a UDF may vary based on specific legal or financial situations. The following scenario can be seen as a generic approach.

Basically the UDF will be seen as a NV, founded by the FSDF and the private partner after a procurement procedure. Contrary to the previous case, cities will not be a partner on UDF-level, but will only participate on project SPV-level.

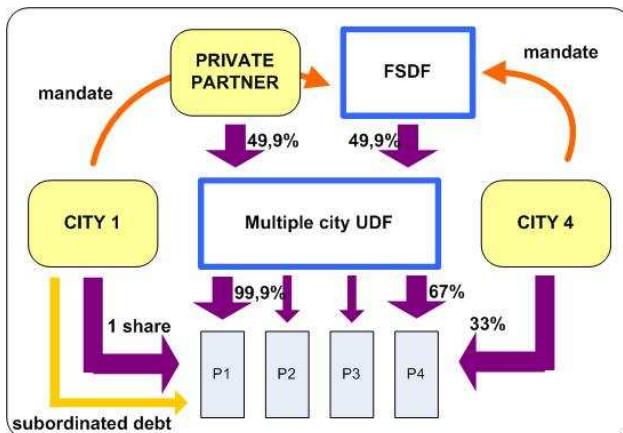
The generic composition of the UDF will be the following:

- 49,9% FSDF
- 49,9% private sector investor
- 1 share or 1% for an independent partner. This partner should be neutral towards different cities.

On project SPV-level, the city can come in again. The relation between city and UDF will depend on the nature of the project.

The UDF will be put in the market, with a clear mandate of the cities towards FSDF, specifying the project, its structure (SPV) and the way the UDF should participate in the project.

*Figure 16: Multiple-city-UDF – generic proposal*



### 7.6.3 Governance and management

Also this kind of UDF should have, generally spoken, have a director with delegated powers.

A typical composition of the UDF-board could be:

- 2 representatives of the FSDF/PMV
- 2 representatives of the private sector investor
- 1 representative of the independent partner

Eventually, an investment committee could be installed that can advise the board on issues of:

- Project structuring
- Project quality
- Project content
- ...

Potential member of these investment committees can be:

- Kenniscentrum PPP
- Senior investment manager(s) of the private sector player
- "Vlaamse Bouwmeester"
- Independent experts related to the scope of the project(s)

This investment committee should be equally composed between experts/members brought forward by the public partner and those brought forward by the private partner. The investment committee should bring a collegiate advice to the board of directors.

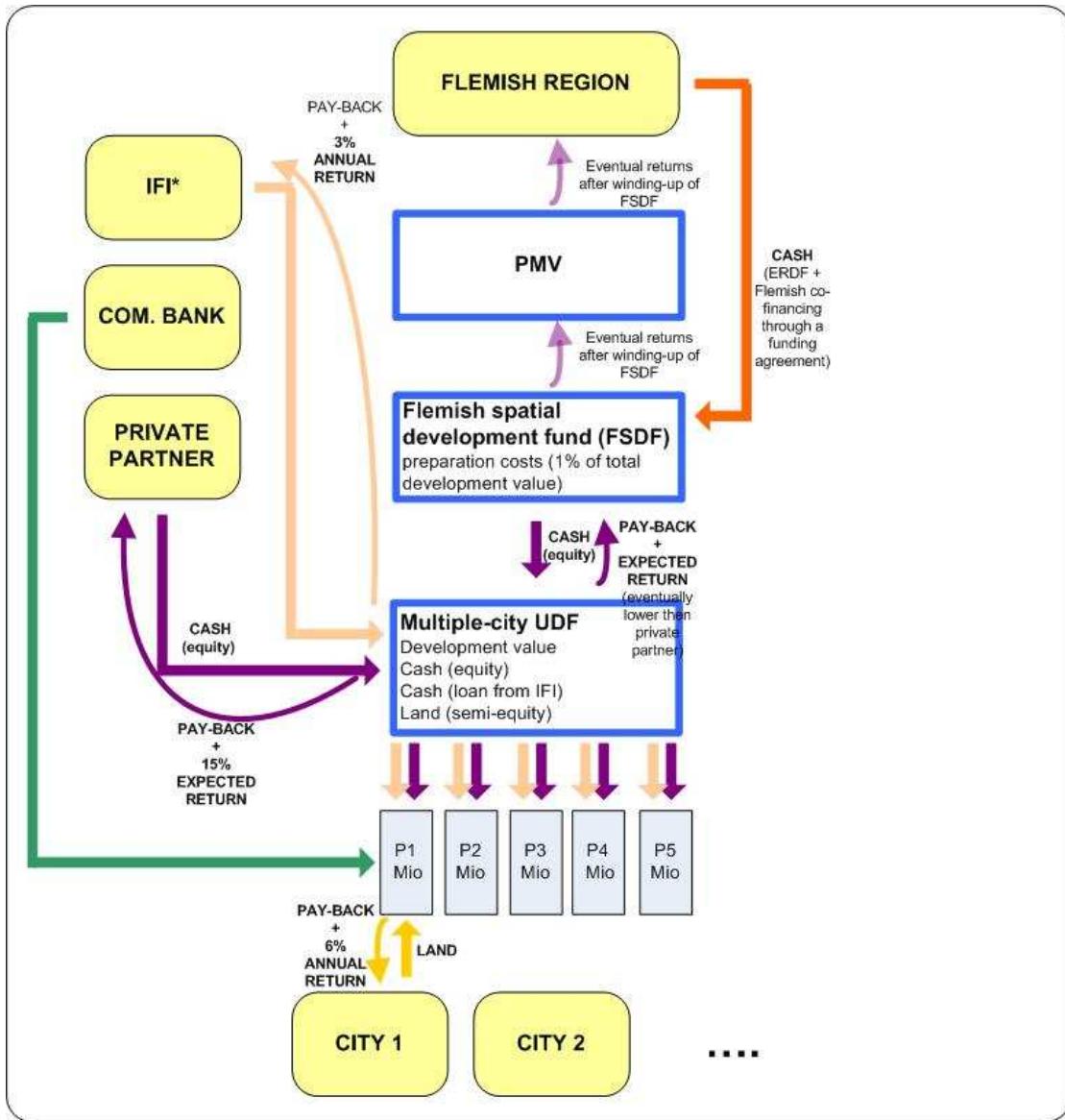
### 7.6.4 Staffing and operating costs

#### **Similar to previous types of UDF**

### 7.6.5 Financial performance

In this last example, we consider under the same assumptions as the other simulations, a portfolio with 5 smaller projects in different cities.

Figure 17: Multiple city-UDF – financial scheme



The same logics exist as under previous schemes.

However, the remark has to be placed, that guaranteeing revolving of funds to the same cities might be difficult to guarantee in the long run because of the occasional participation of these cities.

### 7.6.6 Procurement – selection of a private partner

#### Similarities to previous types of UDF

The procedure will be a hybrid procedure in which the private partner is invited to participate in a UDF. This UDF will afterwards invest in project SPVs in which different cities can be partners. This should be clearly arranged through a mandate from the city to the FSDF. This mandate should also detail the revolving of the funds after projects SPV dissolution towards the city. Also these funds could be labelled within the FSDF.

<b>CONCLUSION</b>	<ul style="list-style-type: none"> <li>▪ Structuring the FSDF and UDFs can be done through <b>general corporate structures</b>. These structures comprise guarantees on corporate governance out of their legal nature.</li> <li>▪ The FSDF and in extent the UDFs could guarantee <b>a long-term focus and presence of ERDF-funds</b> for urban development in Flanders.</li> <li>▪ Given the scope for clear and limited UDFs, the concrete <b>UDF-structure will always be made-to-measure</b>. Specific attention should go to the role and involvement of other public partners such as cities. These could eventually become risk-sharing partners</li> <li>▪ The <b>handling of eventual public land portfolios</b> is crucial in creating leverage on other investment means. Therefore, valuations and return mechanisms should carefully be evaluated in each set-up of an UDF.</li> <li>▪ The option for a full legal body for the HF (FSDF), will <b>guarantee revolving of funds in the long run</b>.</li> <li>▪ <b>Revolving of funds towards cities</b> will exist on two levels: projects running on city assets could generate direct return to a city. Besides within a UDF or the FSDF, returns can be labelled for reinvestment within the city.</li> <li>▪ <b>Bringing quality within projects</b> and monitoring it, can be done in several ways: through the composition of an eventual investment committee, by making it a clear issue in the call for private partners and through the preparation of the project portfolio.</li> <li>▪ In case of a bottom-up decision in favour of the allocation of ERDF money into a UDF and FSDF, ERDF-allocation could easily be injected into this process since it will be <b>already compliant to JESSICA provisions</b>.</li> </ul>
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## 8 THEME 5: IMPLEMENTATION & CONCLUSIONS

<b>Research objective 4</b>	To suggest an action plan and a timetable for JESSICA in Flanders
<b>Research question 12</b>	Recommendations on how JESSICA should be taken forward in The Flemish Region. This should include practical tools, which should be developed, actions, which should be launched to support the application and management of JESSICA and to embed JESSICA in the existing administrative procedures and regulations. A time scale and critical path for the implementation of the new structure will also be required. In this context, the opportunity of establishing UDFs initially without recourse to Structural Funds should also be examined.

### 8.1 Concrete JESSICA pilot scheme

Based on the previous chapter, a concrete JESSICA pilot scheme could be the following:

- One or more land-portfolio UDFs. PMV could take initiatives to bring this option further. If within such a portfolio, chances could be detected for projects/elements eligible under priority 1 or 2, a response to a call could eventually be introduced. Given the focus of these priorities, changes for convergence will be very project-specific and available amounts will probably be limited.
- The cities of Antwerp and Ghent could be interesting to launch a full JESSICA pilot. Both cities have large development zones which could as such already been seen as portfolios:
  - Oude Dokken Ghent
  - Petroleum Zuid

Moreover, these zones consist of projects with a reasonable revenue potential and for both projects cities are counting on using ERDF. Besides, these projects still need preparation before actual investments could be done. Preparing a UDF in the short run will have two important benefits:

- ERDF-resources could be taken up already and generate interests available for future expenses
- A private investor could be involved in further elaboration and optimisation of the projects.

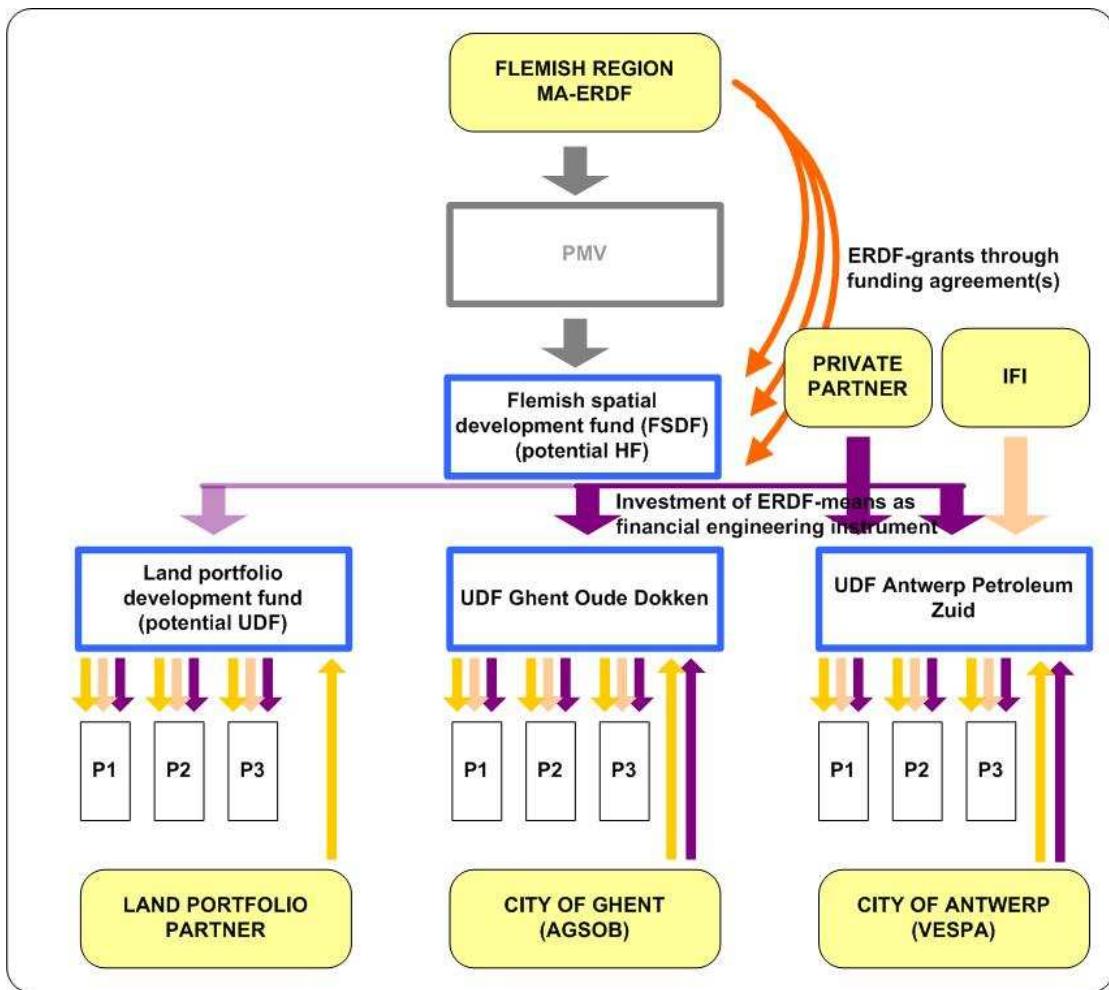
Specifying an exact number of possible ERDF-funding is difficult without in-depth financial analysis, but we could indicate a number of between 5-10 Mio for each of the projects, eventually completed with Flemish co-financing.

This pilot scheme has the important benefit that it could easily fit within the existing OP and it could generate an important visibility for JESSICA-instruments in Flanders because of the scale of the projects.

Because the start-up of each of these UDFs might be difficult to coordinate, it could be that different funding agreements between MA and the FSDF might be necessary.

The following figure gives an overview:

Figure 18: Concrete short-term JESSICA implementation



## 8.2 Major benefits for JESSICA in Flanders

The major benefits for the application of JESSICA have been extensively discussed in previous chapters.

### Benefits for the Flemish Region

- The ERDF-means become revolving within a structure owned by the Flemish Region. This ensures that long-term regional investment potential is maintained and the leverage effect (additional financial resources) will render the use of ERDF resources more efficient.
- After a first investment cycle, returns can be reinvested with a much broader investment focus.
- The JESSICA framework forces project promoters and investors to make projects economically sustainable. This will enhance long term impact of the invested ERDF-money.
- Because the Region will act as an investor, and not only as a grant-channel, a higher pressure exists on efficient spending of ERDF contributions.
- Shifting from awarding grants to investment will force to go forward with better project definition.
- The JESSICA-approach could be an interesting channel to bring projects to the market out of the rounds of concept subsidies.
- The JESSICA-approach will stimulate social responsibility of private developers and investors.

## Benefits for the cities

- The Jessica framework will support cities by investing venture capital within local spatial projects. This will reduce the risks for the cities and/or their AGBs.
- By investing ERDF-funds in city projects, the amount of capital a city has to invest will be reduced. This means that a city is able to develop more spatial projects with the same amount of own funds.
- JESSICA permits cities to have a clearly demarcated and long-lasting investment channel with regional and European investment resources.
- The JESSICA-framework will make the Flemish Region more involved within projects. This can lead to stronger partnership between cities and the Region.
- As the Jessica framework makes the ERDF-funds revolving, cities can use the funds several times in the future. This also means that more local projects can be developed.
- All potential projects are examined by the Flemish Spatial Development Fund. Cities can make use of the knowledge and funds of the Fund to investigate the economic and financial viability of their projects en make improvements if needed.
- For Cities with enough deal-flow an UDF could eventually be set-up on city level. This can make the ERDF-means sustainable within the city.
- Cities will be involved in the governance of a new financial instrument (UDF), which will provide them to develop investment skills.

## Benefits for the private sector

- The Jessica framework will provide public-supported venture capital for local spatial projects. This will reduce the risks for private actors.
- The Jessica framework and the revolving nature of the ERDF funds enables cities to develop more spatial projects. This will increase the amount of development opportunities for the private sector.
- Within the Jessica framework, projects will be clustered and be brought to the private market. This will reduce the transaction costs for the private sector.
- The PMV, as the manager of these funds, is an experienced partner for shared investments with the private sector. This makes the PMV a professional and solid partner for the private sector.
- The JESSICA-framework enhances the engagement of the public sector towards complex developments. This can streamline public actions such as planning procedures, awarding of supplementary grants or public investments related to the project.
- The public involvement could ease finance conditions for the project.

## 8.3 Challenges for implementation

In order to set up a Flemish JESSICA or JESSICA-like framework, the following issues can be indicated as "critical success factors":

- **Active promotion:** It will be important to promote the Jessica framework in the present Flemish public developing system. This means that it has to sell itself to the public sector, by active promotion.
- **Creating confidence by a pilot:** To give the public sector the confidence of the benefits for the cities and a proper working if the framework, a 'pilot-UDF' is advisable. A sound monitoring and visibility towards future local public actors and private actors is necessary.
- **Staffing the FUDF and UDFs:** The staff of the Flemish Spatial Development Fund, the management of the Jessica framework, must be very competent, as

the projects are usually politically, financially and spatially very complex. This staff needs both understanding of private reasoning on project feasibility as of the realisation of public objectives.

- **Quality within projects:** given the starting point of public-private co-production and the fact that projects will be clustered within portfolios with an investment focus of about 10 years, an other approach towards quality will be necessary. We would suggest making this quality-question part of the tendering procedure for private parties. In this option the public partner will set the objectives and themes for quality control within projects, but the private partner will have to propose a concrete tuning of criteria and approach for application within the projects of the portfolio.
- **Efficient decisions within UDFs:** In order to come to efficient delivery, projects will have to be executed out of the political arena. This means that after the set-up of the objectives and business plan of an UDF, the decision organs of the UDF should be independent on all decision they make within the approved FSDF business plan and mandates.

## 8.4 Action plan and time table

The following actions have to be undertaken to bring JESSICA further in the Flemish Region:

- Promoting the approach towards cities and other project promoters/owners
- Business plan for a Flemish spatial developments fund
- Set-up of the FSDF (Flemish spatial development fund)
- Set-up of a first UDF (JESSICA-like)

In case the Flemish Region opts for a JESSICA-strategy in which ERDF-means would be involved, the following supplementary actions should be foreseen:

- Amendment of the OP, this is only necessary in case important shifts concerning content and financial framework should be foreseen. Within a bottom-up approach with cities under priority 4, this should not be necessary.
- Awarding an ERDF-contribution to the Flemish spatial developments fund
- Set-up of an UDF (with ERDF-means)

### 8.4.1 Action plan

#### **Principal decision by the Flemish Government**

In order not to lose time, money and motivation, we suggest that relevant actors (PMV, administrations and ministers) should first wait for a principal decision by the Flemish Government on taking forward JESSICA. It is less likely that this decision will be taken by the current Flemish Government (2004-2009), given the end of the legislative term.

However long-term flow-back of investments (and cash) to the Flemish Authority has been indicated, a starting capital will probably be necessary from the Flemish budget. This will be higher if no ERDF-funds would be available.

This principal decision should be guided by the Knowledge Center PPP.

#### **Promoting the approach**

The interviews with cities have indicated a certain interest for the approach but that some cold feet still exist. We suggest that further communication and promotion could focus on the following aspects:

- **Contacts with regional administrations** such as infrastructure, education,... This should focus on the eventual set-up of an UDF (without

ERDF-means) with a land/asset portfolio held by a Flemish regional administration. This could figure as a pilot to show the potential of the approach.

- **Contacts with major cities** such as Antwerp and Ghent to further explore the potential for an UDF on city level. If Antwerp and/or Ghent could be further enthused for the approach and an embryonic project portfolio could be identified, this could create an opening for using ERDF-means (priority 4) in the current period.
- **Contacts with other cities:** also other cities could be further informed. With these cities the focus should lie on the knowledge transfer that the approach could bring. It is less probable that these cities could offer enough potential for UDFs on city level.
- **Information sessions to private sector:** it is important to gain further approach of the private sector and to inform them in an early stage, in order to get early feed-back but also to prepare them on the approach. This will stimulate creativity and pro-activity.

It is advised that this should be done in parallel with the elaboration of the business plan for a Flemish spatial development fund.

This action could be taken forward by the Flemish Ministers for Urban Policy and Economy (ERDF) in collaboration with PMV.

### **Business plan for the FSDF**

The business plan for a Flemish spatial development fund should further define the role, objectives and operation of the Flemish spatial development fund. Since setting up this FSDF will only get momentum if it goes together with a first UDF, this should be developed in parallel. Following actions should be undertaken:

- Selection of projects for a first UDF
- Financial modelling and feasibility for these projects
- Financial modelling for the FSDF
- Legal elaboration and definition of tendering procedures
- Elaboration of models of agreements

This action could be done by PMV, supported by Flemish administrations (mainly Urban Policy Administration, Agency for Economy-ERDF-administration, eventually also the administration for spatial planning) and eventual support from the EIB JESSICA-task force.

### **Amendment of OP**

It has been indicated that under current circumstances, the amendment of the OP will be difficult. Therefore we suggest doing this, taking into account two considerations:

- The **support of 1 or more cities** is present, due to interest of this city to create an UDF for some projects in the pipeline. Specifically, the projects of Oude Dokken in Ghent and Petroleum-Zuid in Antwerp, might be interesting opportunities here.
- Given the fact that the current OP is a political agreement within the current Government coalition, it is advised to bring in this eventual renegotiation within **coalition negotiations for a new Flemish Government** after the upcoming elections.

A changed OP should undergo the following procedures:

- Agreements within the Monitoring Committee and the Flemish Government
- Submission at the EC and approbation by EC

This action should be brought forward by the Flemish Minister for Economy, responsible for the ERDF-budget.

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## **Set-up of the FSDF**

The set-up of a FSDF can be done when its business plan is approved by the Board of PMV and by the Flemish Government. The following actions have to be done:

- Capital contribution to PMV for the regional share
- Legal preparation (charter of foundation)
- Formal decision procedures within PMV (board decision)
- Actual set-up

This action can be prepared and coordinated by PMV. When the first UDFs will be UDFs financed with ERDF-funds, a funding agreement will be signed between the HF and the MA. We remind here the content of this funding agreement:

<b>Content of funding agreement from MA to HF</b>	<ul style="list-style-type: none"> <li>■ terms and conditions for contributions from the OP into the HF containing modes, timing and amounts of payments out of the OP.</li> <li>■ a model for call(s) for EoI to be addressed to financial partners to set up a UDF</li> <li>■ appraisal, selection and accreditation criteria for financial partners to set up a UDF</li> <li>■ the investment strategy and monitoring provisions for contributions to UDFs from the HF</li> <li>■ reporting models from the HF to the MA</li> <li>■ monitoring provisions of investments; specifically rules on monitoring of eligibility of expenditures and suited accounting systems in this regard.</li> <li>■ Audit requirements</li> <li>■ Exit policy model for the HF to step out UDFs</li> <li>■ Provisions for revolving of funds after winding-up of UDFs (this is specific in the Flanders' model, given the restricted scope of UDFs)</li> <li>■ Winding-up provisions for the HF itself</li> </ul>
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The ERDF-contribution becomes labelled money within the FSDF, due for the set-up of an UDF. This is supported by an agreement between the FSDF and the MA as stated in the regulation.

This should be coordinated by the Flemish Minister for Economy, with the support of PMV/FSDF.

## **Set-up of a first UDF**

Before the first UDF is ready to start, the next activities will have to be executed:

### **STEP 1: preparation**

- **Eventual cooperation with a potential public partner** and/or a cluster of potential local projects: the FSDF has to find a public partner with more projects or more public partners each with a project. These projects have to fit with the principles of the FSDF and the public actors must be willing to cooperate with the FSDF.
- **Pre-feasibility of the projects:** each of the projects must be examined by the FSDF, to make sure that the project fits with the market conditions and is financially and legally feasible. This feasibility exercise will also indicate the public objectives that should be realised within the project. Adjustments might be necessary. This pre-feasibility should indicate the necessary of a notice to the EC on a specific state-aid scheme.
- **Agreement with the local public actor:** The FSDF and the public partner(s) have to agree about the elements of the cooperation within the UDF and the projects. This concerns the content of the projects (program, spatial structure, spatial qualities, financial structure,...) the desired revenues, the public funding of the projects, the sharing of risks,....

### **STEP 2: procurement – call for private partners for a potential UDF**

- **Preparations for the tender for private actors:** The FSDF has to draw up the documents concerning the content of the projects, the framework for collaboration between the future private and public partners and the process of the tender. The public partner has to confirm these documents.
- **Tender the cluster of projects:** the FSDF will tender the collaboration within the UDF and the cluster of projects together. This needs to be done (and can be done) in respect with the European rules.
- **Feasibility:** potential UDF partners will work with FSDF and other public partners on a feasible project, business plan, investment strategy, specific UDF architecture,...

### **STEP 3: establishment and funding**

- **Establish the UDF and project SPVs:** each tender will end with a slightly different set of agreements, as a result of negotiations, market situations etc.. Therefore, the set-up of a UDF and SPV should be done after selecting a private party, to prevent an amendment of the articles of association.
- **Funding agreement:** the ERDF and eventual other public contributions will be drawn to the UDF in the form of equity, loans or guarantees (see theme 3). This will be accompanied by a funding agreement. This funding agreement should contain following items.

<b>Content of funding agreement from HF to UDF</b>	<ul style="list-style-type: none"> <li>▪ The investment strategy and planning of activities of the UDF, this under the form of the business plan.</li> <li>▪ Monitoring of implementation: specifically towards eligibility of expenditure and accounting systems, precautions have to be made.</li> <li>▪ An exit policy for the HF, specifying conditions under which the HF might eventually draw back earlier its participations in the UDF.</li> <li>▪ The winding-up provisions for the UDF.</li> </ul>
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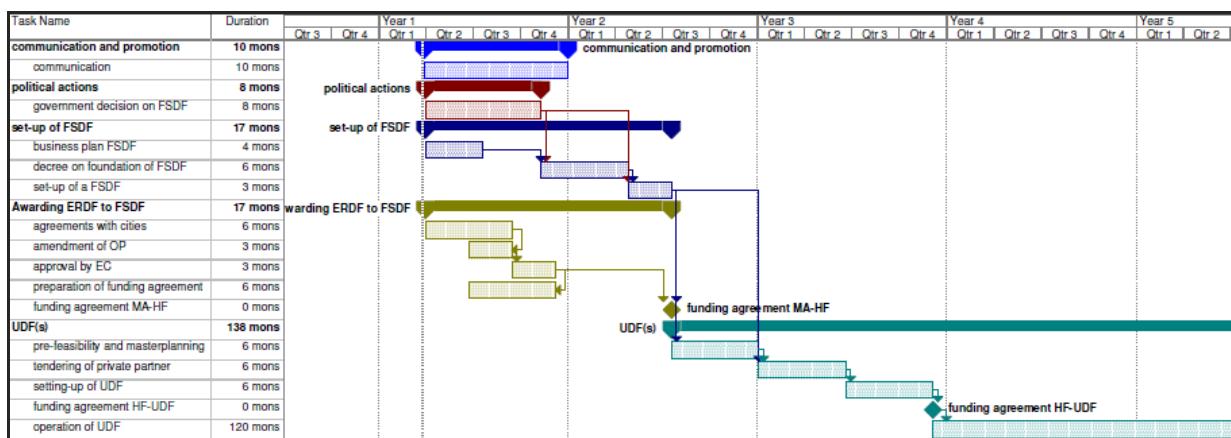
- **Execute the activities within the projects:** after an UDF and SPVs are legally and financially set-up, and staff has been employed, the projects can start-up.

All these activities will be executed by the FSDF/PMV with collaboration of project partners.

#### 8.4.2 Time table

The indicated actions are set into a timeline in the scheme hereunder.

*Graph 14: Timetable for implementation of JESSICA in Flanders*



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