



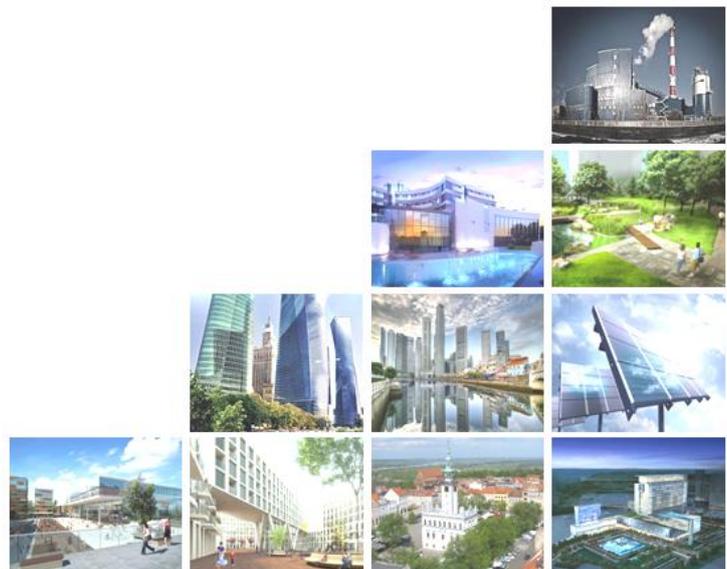
## 2014-2020 JESSICA Evaluation Study for Nine Polish Regions:

**Kujawsko-Pomorskie, łódzkie, Lubelskie, Małopolskie, Mazowieckie, Śląskie, Świętokrzyskie, Wielkopolskie, Zachodniopomorskie**

**Final Report**

**Part II**

**30 April 2014**



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Małopolskie, Mazowieckie, Śląskie,  
Świętokrzyskie, Wielkopolskie,  
Zachodniopomorskie

### Part II

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## 1. REGIONAL POLICY CONTEXT

### 1.1. Analysis of the general conditions in Kujawsko-Pomorskie Region



Area (ths km2)	17,971
Population (ths 2010)	2,098
Urbanisation ratio*	61.1 %
Unemployment rate (2012)	16.6%
Relative average salary** (2011)	84.5

Source: The Central Statistical Office

\* urban population as percentage of total population

\*\* average monthly gross salary to the national average (Poland = 100)

#### 1.1.1. General Presentation and Experience to Date

##### Key features and challenges of Region's city areas

Situated in central Poland, the Kujawsko-Pomorskie Region is primarily agricultural with 52 towns in the voivodeship inhabited by 61% of the total population. Its two major cities are the regional capitals of Bydgoszcz and Toruń, with 18% (356 ths inhabitants) and 10% (205 ths inhabitants) of the Region's total population respectively, followed by Włocławek, Grudziądz and Inowrocław. Classified as sub-regional towns: Włocławek and Grudziądz, former industrial towns are developing their service sectors.

The regional policy aims to focus on the economic development of the Bydgoszcz and Toruń Metropolitan Area. However, neither the Voivodeship Development Strategy nor the ROP for 2007-2013 Programming Period incorporated any provisions for a complex and coherent strategy for building a Metropolitan Area, as these types of documents are created at a certain level of generality. The key objectives of the current metropolitan policy are to reinforce the functions of supra-regional importance of both cities, whilst also integrating the public transportation systems, and protecting the environment against the adverse impact of development, and supporting the management system in the Bydgoszcz and Toruń Metropolitan Area<sup>1</sup>.

##### Experience in using Financial Instruments

To date, regeneration projects in Kujawsko-Pomorskie have only been financed by subsidies and grants (subsidies cover a financial support secured by the government agencies which may include grants, but also other forms of support as underwriting and guaranteeing fees and expenses, while grants are cash support, extended for a specific purpose). Financing has been granted to 32 towns in the current Programming Period 2007-2013. The funds were distributed on the basis of *inter alia*, the size of the towns and their income levels. Examples of projects funded by the ROP that received significant financial support include:

- The Bydgoszcz Water Node – regeneration of boulevards and quays, strengthening of quays, improving the lighting system, construction of cycle paths, footpaths and street facilities– stage I (value of financial support: over PLN 11 M),

<sup>1</sup> Priorities of city policy of Self-Government of Kujawsko-Pomorskie Voivodeship, 2008, p.3

- Renovation of a theatre Teatr Impresaryjny in Włocławek (value of financial support: approximately PLN 8 M),
- Regeneration of Dworcowa Street - section between Matejki and Gdańska streets (value of financial support: over PLN 5 M).

FIs have only been used in the Region to support SME development through loans and guarantee funds, in which capital injections were provided to selected funds. In particular, approximately 40 M PLN was earmarked as repayable funding for entrepreneurs under the JEREMIE initiative.

### 1.1.2. Description of the Kujawsko-Pomorskie Region and the key priorities for the Region's development

#### Urban areas in the Region

Priorities of current urban policy in Kujawsko-Pomorskie Region are focused on<sup>2</sup>: i) supporting the innovative development of the cities; ii) revitalisation of the cities and towns in the Region; and iii) reinforcing the functions of supra-regional importance of Bydgoszcz and Toruń. The priority concerning the revitalisation of the cities and towns in the Region include:

- Improvement of the aesthetics and quality of public spaces and the protection of the urban landscape (including the renewal of façades of buildings, complete refurbishment of historic landmarks, renewal of road and square surfaces, arrangement of street furniture, rehabilitation of green areas, upgrading of lighting systems for streets and historic landmarks),
- Reinforcement of the economic potential of cities and towns (including preparation of new investment sites and conversion of unused areas and post-industrial/post-military sites to accommodate new economic functions).

#### Key strategic documents in the context of urban development

The Kujawsko-Pomorskie Voivodeship Development Strategy 2007–2020 and other programming documents<sup>3</sup> set out the key objectives for economic development which on the one hand, are linked to the urban development of major cities, and on the other hand, utilize the natural resources, including the agricultural values of rural areas. The strategic documents prepared at the commune level provide for more dynamic development of small urban centres in the future.

The Kujawsko-Pomorskie Voivodeship Development Strategy outlined the *Priority Action Area 2: Modernisation of the functional and spatial structure of the region*, which incorporates 6 measures:

- support for the development of the settlement pattern,
- development of technical infrastructure,
- development of IT society,
- development of social infrastructure,
- promoting cultural heritage, and
- the conservation and enhancing of water environment resources.

Whilst there is no direct reference explicitly to urban regeneration, each of the measures refers to the aspects of urban development and regeneration to a certain extent. The strategy envisages that the investments will be financed by the state budget, state special-purpose funds, own contributions of territorial self-government units, funds provided by various organisational and legal entities of the public finance sector, as well as public funds of the European Union (including the ERDF, ESF, CF, EAFRD, EMFF ), funds from multi-lateral organisations (as the World Bank and the European Investment Bank) and private funds (own contributions of beneficiaries, including loans and borrowings).

<sup>2</sup> Priorities of city policy of Self-Government of Kujawsko-Pomorskie Voivodeship, 2008, p.3-4

<sup>3</sup> Assumptions to the Development Strategy of Kujawsko-Pomorskie Voivodeship till 2020, Kujawsko-Pomorskie Voivodeship - Regional Analysis, Priorities of city policy of Self-Government of Kujawsko-Pomorskie Voivodeship, RDS of Kujawsko-Pomorskie Voivodeship till 2020, ROP for Kujawsko-Pomorskie Voivodeship for the years 2007-2013, ROP for Kujawsko-Pomorskie Voivodeship for the years 2007-2013 – Detailed description.

### 1.1.3. Experience in programmes / initiatives focusing on urban development, implemented in the Region

Urban regeneration and development projects are being implemented as part of Regional Operational Programme 2007–2013, under the 7th priority axis “Support for changes in the cities and areas requiring regeneration”. This axis includes the following examples of project types:

- Regeneration of degraded urban areas, including revitalisation of squares, streets, pedestrian and cycle routes, parks, green areas, boulevards, playgrounds, sports grounds, water reservoirs, including adaptation for the use of disabled,
- Restoration of historical town centres in areas protected by Historic Conservation Officers through the revitalisation of existing buildings or addition of new buildings (including demolitions of obsolete structures), as well as promoting economic, social, educational, touristic or cultural functions, construction/refurbishment of public buildings for economic, training, educational, tourism, cultural or social functions, including the development of the functionally related area,
- Restoration and conservation works on registered historical monuments and buildings that have architectural value and historical importance,
- Establishment of safety zones to prevent crime in urban areas, including: the construction or refurbishment of lighting systems, installation of street monitoring systems,
- Replacement or upgrading of deteriorated technical infrastructure within regenerated areas as part of comprehensive projects.

#### Figure 50: Examples of experience in the implementation of ROP-funded urban development projects

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Under the Regional Operational Programme for the Kujawsko-Pomorskie Voivodeship 2007–2013, a project titled: “Physical and Sports Education Centre of the Kazimierz Wielki University – Stage I” was carried out in Bydgoszcz in 2010 to 2013. The investment involved a major alteration and extension of a complex of three existing university facilities, as well as the construction of a new building. Engineering works included the modernisation of a swimming pool building and the pool basin, construction of a gymnastics hall, extension of a sports hall, and construction of buildings / facilities for students. The works additionally included the development of external systems and technical infrastructure. As a result, the Physical and Sports Education Centre of the Kazimierz Wielki University is now a state-of-the-art sports, science and teaching facility for physical education students. The total cost of the project was PLN 30.1 M and the financial support from European Union funds under the Regional Operational Programme for the Kujawsko-Pomorskie Voivodeship 2007–2013 amounted to PLN 21.1 M.

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Source: Input from the Kazimierz Wielki University in Bydgoszcz, Regional Operational Programme for the Kujawsko-Pomorskie Voivodeship 2007–2013.

### 1.1.4. Description of the key assumptions in the draft 2014-2020 ROP

#### Regional Operational Programme of Kujawsko-Pomorskie Voivodeship for the years 2014-2020 (Regionalny Program Operacyjny Województwa Kujawsko-Pomorskiego na lata 2014-2020)

The Board of Kujawsko-Pomorskie Voivodeship accepted the first version of ROP for Kujawsko-Pomorskie Voivodeship on June 19<sup>th</sup> 2013<sup>4</sup>. According to this version, 14 thematic priority axes are to be implemented:

- I. Supporting the regional innovation through R&D companies;
- II. Supporting the competitiveness of the regional economy;
- III. Digital Region;
- IV. Low-emission economy,
- V. Adjustment to the climate changes;

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<sup>4</sup> ROP for Kujawsko-Pomorskie Voivodship - <http://www.mojregion.eu/regionalny-program-operacyjny-wojewodztwa-kujawsko-pomorskiego/aktualnosci/czytaj/items/regionalnego-programu-operacyjnego-na-lata-2014-2020-projekt-21734.html>

- VI. Environmentally friendly Region;
- VII. Internal cohesion and external accessibility of the Region;
- VIII. Education and employment;
- IX. Solidary society – ESF;
- X. Solidary society –ERDF;
- XI. Urban policy;
- XII. Community-led development;
- XIII. Technical support – ESF;
- XIV. Technical support – ERDF.

The 11th priority axis “Urban policy” is likely to correspond to the largest extent with the Region’s urban development needs. The following actions are planned, *inter alia*, under this priority axis:

- Supporting energy efficiency and use of renewable energy sources in public buildings and in the housing sector,
- Promoting low-emission strategies, in particular within urban areas, including support for the sustainable urban transport and other adaptation and mitigation measures,
- Protection, promotion and development of the cultural and natural heritage,
- Improvement of the urban environment, including the rehabilitation of post-industrial sites and reduction of air pollution,
- Supporting the physical, economic and social rehabilitation of impoverished communities, as well as urban and rural areas.<sup>5</sup>

The initial budget allocations to the axes have been defined and a general outline of the implementation system has been developed. The advisor for the ex-ante evaluation was appointed. The tender for an environmental impact assessment has not been announced yet and public consultations are planned for October 2013.

#### **Kujawsko-Pomorskie Voivodeship Development Strategy 2014–2020**

The new Voivodeship Development Strategy 2014–2020 for Kujawsko-Pomorskie Voivodeship has not been finalised as of August 2013. The Agenda for the new Strategy was adopted in May 2012, in which the following were considered to be the main challenges for regional policy:

- Formation of a strong metropolitan area,
- Adjusting the public service scope and area to the projected demographic changes,
- Creating a regional public transportation system,
- Providing open access to information networks,
- Establishing the foundations for and implementation of the urban policy of the regional self-government,
- Determining the requirements for the location, development and functioning of renewable power generation,
- Development of a modern society,
- Rural development, supporting modern agriculture,
- Creation of the voivodeship brand and reinforcement of its identity.

The area of urban regeneration and development is included as part of the thematic area covering the functional and spatial structure and infrastructure. With respect to that thematic areas, the following issues should be reflected in the priorities of the new strategy: the metropolitan area, urban policy, accessibility, technical infrastructure, energy, development of the territorial and spatial structure, environmental protection and development, local and sub-regional centres, development of the public service infrastructure, and a local strategic planning system. Within those thematic areas, the strategy envisages the following objectives:

<sup>5</sup> ROP Agenda 2014-2020 (version from 19.06.2013)

- Ensuring the right conditions for the consistent development of suburban areas,
- Enhancing the metropolitan potential of Bydgoszcz and Toruń as centres of a dual core area with metropolitan characteristics,
- Counteracting the negative effects of the projected demographic changes,
- Spatial, functional and transport integration of urban and suburban areas,
- Ensuring the right conditions for the consistent development of the Vistula River Valley,
- Development of tourism zones.<sup>6</sup>

### Local Regeneration Plans for Toruń and Bydgoszcz

In order to identify projects that can be potentially supported with FIs, the Local Regeneration Plans were analysed. Among the projects listed in the plans, the following may potentially seek support in the form of FIs:

- Regeneration of the resources of SM “Budowlani” in Osiedle Wyżyny and Osiedle Leśne – Stage III – project value: approx. PLN 11 M, investor: Spółdzielnia Mieszkaniowa “Budowlani”;
- Regeneration of Bulwar Filadelfijski together with the Vistula riverside from the road bridge to the AZS marina in Toruń – project value: approx. PLN 4.2 M, investor: Toruń Town and Commune, European Union funding will be sought to cover 61.64%;
- Conversion of the building at ul. Bydgoska 50, 52 for cultural, social and economic purposes – project value: approx. PLN 7.1 M, investor: Toruń Town and Commune.

#### Figure 51: Regeneration of Bulwar Filadelfijski together with the Vistula riverside from the road bridge to the AZS marina in Toruń

The project is implemented by the Toruń Town and Commune and is included in the Local Regeneration Programme 2007–2015 in Toruń. The project site covers part of a terraced waterfront along with Bulwar Filadelfijski on the right bank of the Vistula River. It is located within a historical urban zone, along a section of approx. 302 meters, downstream of a road bridge. The total cost of the project is estimated at PLN 5 M; the city plans to finance 38.26% of the total amount from its own funds. European Union funding will be sought to cover the remaining 61.74%.

Overall, the project encompasses the regeneration, repair and modernisation of green areas and bank reinforcements, which were particularly destroyed in the most recent flood in 2010. The total surface area of the property covered by the project is 3.3 hectares, with a 302 meters long quay. The area has not been built on and the primary objective of the project is to create a safer and more attractive space for the users of the Bulwar. The implementation of the project will contribute to the extension of the recreation zone. The project is located within a historical zone protected by the Historical Conservation Officer – the Old Town, which is a UNESCO World Heritage Site.

Source: Local Regeneration Programme for Toruń 2007–2015.

### 1.1.5. Smart Specialisation Strategy

The Strategy for the development of smart specialization for Kujawsko-Pomorskie Voivodeship provides for the criteria for selecting research, development and innovation priorities (smart specialisations). The smart specialisations of the Region are being widely consulted. The following areas of smart specialisations are considered:

- Best safe food – processing, fertilizers and packaging;
- Medicine, medical and health tourism;
- Automotive, transport equipment and industrial automation;
- Information processing, programming, ICT services;
- Bio-intelligent specialization – natural potential, environment, energy;
- Transport, logistics, trade – waterways and road routes;
- Cultural heritage, arts, creative industries.

<sup>6</sup>Agenda of Voivodeship Development Strategy 2020, p.26

## 2. FINANCIAL INSTRUMENTS & CASE STUDIES ANALYSIS

### 2.1. Identification of supply and demand, including market failures experienced in the past

#### 2.1.1. Supply side

##### 2.1.1.1. Description of the Financial Instruments currently available in the Region

In 2012, six loan funds, six guarantee funds and one business angel network were operating in the Kujawsko-Pomorskie Voivodeship.<sup>7</sup> There are no seed capital funds in the Region.

Figure 52: Key players in the Regional FI market

6	Loan funds	Guarantee funds <sup>6</sup>	6
	<ul style="list-style-type: none"> <li>Kujawsko-Pomorski Fundusz Pożyczkowy Sp. z o.o. (Kujawsko-Pomorskie Loan Fund - Manager of JEREMIE)</li> <li>Polish Entrepreneurship Foundation in Szczecin – Sub-regional Guarantee Fund KUJAWIAK</li> <li>Fundusz Pożyczkowy przy Polskim Towarzystwie Ekonomicznym (Loan Fund at the Polish Economic Society)</li> <li>Poręczenia Kredytowe Sp. z o.o. (Credit Guarantee Fund Ltd)</li> <li>Kujawsko-Dobrzyński Bank Spółdzielczy we Włocławku (Kujawsko–Dobrzyński Cooperative Bank in Włocławek)</li> <li>Rural Development Foundation</li> </ul>	<ol style="list-style-type: none"> <li>Bydgoski Fundusz Poręczeń Kredytowych (Bydgoszcz Credit Guarantee Fund)</li> <li>Kujawskie Poręczenia Kredytowe (Kujawski Credit Guarantee Fund)</li> <li>Grudziądzkie Poręczenia Kredytowe Sp. z o.o. (Grudziądz Credit Guarantee Fund)</li> <li>Toruński Fundusz Poręczeń Kredytowych (Toruń Credit Guarantee Fund)</li> <li>Kujawsko-Pomorski Fundusz Poręczeń Kredytowych (Kujawsko-Pomorskie Credit Guarantee Fund)</li> <li>Towarzystwo Rozwoju Gminy Płużnica (Society for Płużnica Community Development)</li> </ol>	
0	Seed capital funds	Business angel networks	1
		<ol style="list-style-type: none"> <li>PolBAN - Business Angels Club</li> </ol>	

Source: 1) Business and Innovation Centres in Poland 2012 – final report, Association of Business and Innovation Centre Organisers in Poland, Warsaw 2012

2) [https://www.funduszeuropejskie.gov.pl/RPO/Aktualnosci/Strony/Dofinansowanie\\_dla\\_funduszy\\_pożyczkowyc\\_RPO\\_woj\\_kujawsko\\_pomorskie\\_180210.aspx](https://www.funduszeuropejskie.gov.pl/RPO/Aktualnosci/Strony/Dofinansowanie_dla_funduszy_pożyczkowyc_RPO_woj_kujawsko_pomorskie_180210.aspx)

3) information from Kujawsko-Pomorski Fundusz Pożyczkowy Sp. z o.o.

##### 2.1.1.2. Guarantees

The Kujawsko-Pomorskie Voivodeship ranked as the first region in Poland in terms of the total guarantee capital in 2010 (PLN 115.7 M).<sup>8</sup> The largest loan fund in the Region is Kujawsko-Pomorskie Credit Guarantee Fund, which ranks as the fifth in Poland (2010) in terms of the guarantee capital (PLN 59.3 M).<sup>9</sup> It also recorded the highest number of guarantees provided in Poland (837). The second largest fund in the Region Bydgoski Guarantee Fund also demonstrated strong activity in this area, ranking as the third in Poland with 485 guarantees granted.

<sup>7</sup>Business and Innovation Centres in Poland 2012 – final report, Association of Business and Innovation Centre Organisers in Poland, Warsaw 2012.

<sup>8</sup>Report on the condition of guarantee funds in Poland – as on 31.12.2010 – final report, the National Association of Guarantee Funds, PAG/Uniconsult, Warsaw 2011.

<sup>9</sup> ibidem.

## **The Kujawsko-Pomorskie Credit Guarantee Fund**

The Kujawsko-Pomorskie Credit Guarantee Fund was established in 2004 by the Kujawsko-Pomorskie Voivodeship, which is now its shareholder, together with Toruńska Agencja Rozwoju Regionalnego S.A. The fund provides guarantees of up to 80% of the loan principal, and the value of an individual guarantee cannot exceed PLN 900,000. Preferences in providing guarantees are given to entities applying for loan or credit in connection with a planned creation of new jobs or measures supporting innovation. Depending on the guarantee period (from 1 to 5 years), the commission rate charged by the fund ranges from 0.6% to 2%.

### **2.1.1.3. Loans**

In 2010, loan funds in the Kujawsko-Pomorskie Voivodeship granted loans in a total amount of PLN 13.1 M, being one of the lowest figures recorded in all voivodeships across Poland.<sup>10</sup> The average loan value was approx. PLN 12 thousand and the average number of loans per fund was approx. 37.<sup>11</sup>

### **2.1.1.4. Equity**

PolBAN – Business Angels Club, the only business angel network in the voivodeship, focuses on investments in the IT, communications, energy, sustainability and medical sectors. However, its industry focus is quite flexible, and the investment decisions are based on the evaluation of the development potential of the project concerned. Some of PolBAN's investments are Merlin.pl – an online bookshop, Helicon – a telemarketing company, or Biovectis – a medical company. PolBAN's headquarters is located in Warsaw, while its registered address is in Bydgoszcz. The club's members are from all over Poland.

### **2.1.1.5. JEREMIE**

In the Kujawsko-Pomorskie Voivodeship, the JEREMIE initiative was envisaged under Measure 5.1 Business support institutions, scheme: JEREMIE Holding Fund. Almost PLN 40 M was earmarked for that objective. Six institutions provide support in the form of loans, credit and guarantees. Assuming a single turnover of capital, the provided funds should generate approx. PLN 86 M in credit and loans.

## **2.1.2. Demand side**

### **2.1.2.1. Prevailing urban development project typologies that could be eligible for JESSICA financing**

With regards to the thematic areas of investments covered by FIs support identified by the research team, most projects from the Kujawsko-Pomorskie Voivodeship fall into the category of business support institutions (5). In other areas: urban regeneration, social infrastructure and sustainable transport, four projects were recorded in each, and only one project in the energy area. Local self-government units (12) and public sector companies (3) dominated in the structure of potential beneficiaries of the programme.

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<sup>10</sup>Diagnosis of the loan funds sector in Poland as on 31.12.2010 – final report, A. Alińska, Warsaw 2011

<sup>11</sup>Report on the performance of loan funds in Poland as on 31.12.2010.

Figure 53: Number of projects by sectors and sub-sectors

<b>4</b>	<b>Urban regeneration</b>	<b>Energy</b>	<b>1</b>
2	Regeneration of post-industrial and post-military sites	Energy efficiency	0
		Waste management	0
		Photovoltaics	0
2	Comprehensive modernisation of dilapidated buildings	Other renewable sources	0
		Heating	1
2	Other	Other	0
<b>4</b>	<b>Social infrastructure</b>	<b>Business environment</b>	<b>5</b>
2	Schools/nurseries	R&D/innovation	0
0	Hospitals/long-term care	SMEs	1
1	Social and municipal housing	Business incubators/technology parks	3
3	Public buildings		
1	Other	Other	0
<b>4</b>	<b>Sustainable transport</b>	<b>Other</b>	<b>7</b>

Source: own study based on the Questionnaire.

Note: Some projects have been classified into more than one category, and hence the sum of projects after counting all categories exceeds the total number of submitted projects.

#### 2.1.2.2. Appetite of final recipients (including municipalities) for the use of Financial Instruments in urban development

According to the Marshal's Office, the interest in FIs in the future could potentially be limited, as beneficiaries are used to grant funding. However, the Marshal's Office would like to increase the numbers of projects financed by FIs. According to the representatives of the Office, a transitional phase could involve the combination of subsidizing and FIs.

This view is supported by the results of the Questionnaire. Irrespective of the thematic area or beneficiary type, the preferred form of investment support indicated in the Questionnaire was through grant financing. Other FIs were mentioned in the case of two projects in the sustainable transport sector, where the willingness to use a loan and guarantee was declared. Both projects were submitted by the Urban Roads and Public Transportation Authority in Bydgoszcz. At that stage, almost 30% of the respondents were unable to identify the form of support in which they would be interested.

Figure 54: Sectors' demand for specific Financial Instruments

Sector	Equity instruments	Loan	Guarantee	Grant	No response	Total
Urban regeneration	0	0	0	2	2	4
Energy	0	0	0	1	0	1
Social infrastructure	0	0	0	2	2	4
Business environment	0	0	0	3	2	5
Sustainable transport	0	1	1	2	0	4
Other	0	0	0	6	1	7

Source: own study based on the Questionnaire.

Note: some projects have been classified into more than one category, and hence the sum of projects after counting all categories exceeds the total number of submitted projects.

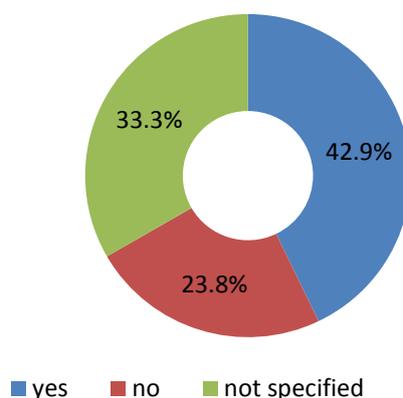
Figure 55: Beneficiaries' demand for specific Financial Instruments

Type of beneficiary	Equity instruments	Loan	Guarantee	Grant	No response	Total
Local self-government units	0	0	0	9	3	12
Public sector companies	0	1	1	1	0	3
Private companies	0	0	0	2	0	2
Research institutions	0	0	0	1	0	1
Other	0	0	0	0	3	3
<b>TOTAL</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>13</b>	<b>6</b>	<b>21</b>

Source: own study based on the Questionnaire.

Despite still the relatively high preference for grants, only 24% of the respondents rejected the possibility of using FIs as a form of financing should the be the only financings available in the new Programming Period for their projects. In the Project Team's opinion, this preference for non-refundable support is natural at this stage while the potential interest of 76% of the respondents in FIs should be regarded as positive.

Figure 56: interest in FIs if they were the only form of financing for projects available in the 2014-2020 Programming Period



Source: own study based on the Questionnaire.

### 2.1.2.3. Funding urban development

In the competitions under Measure 7.1 – Regeneration of degraded urban districts, 146 applications for funding were submitted, totalling more than PLN 188 M. 127 agreements were signed for a total support exceeding PLN 202 M. It means that 19 projects were rejected. Under Measure 7.1 – Adaptation of post-industrial and post-military sites to perform new social and economic functions, implementation agreements were signed for all individual projects (5), and more than PLN 21 M of funding was granted.

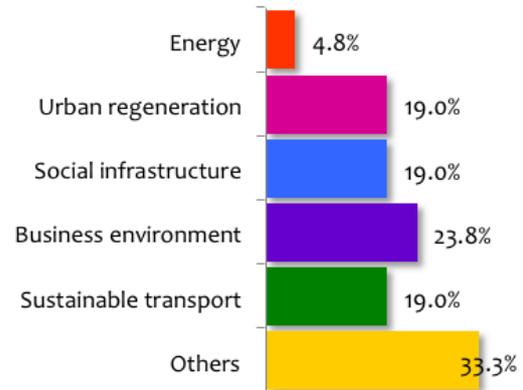
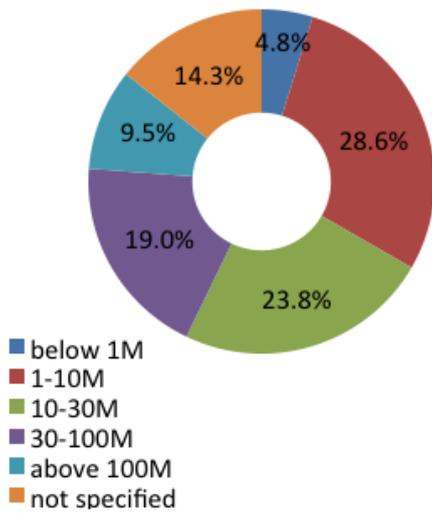
## 2.2. Identification of potential pipeline and Case Studies

### 2.2.1. Identification of potential projects

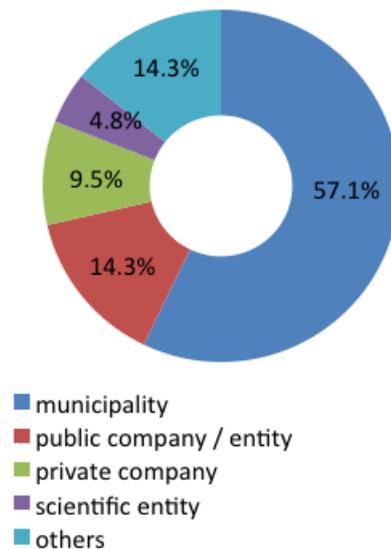
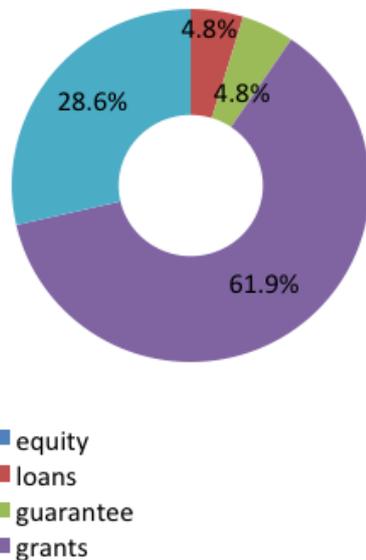
<b>Number of projects</b>	21
<b>Total value</b>	PLN 1,355.6 M
<b>Average value</b>	PLN 75.3 M

21 projects were submitted as part of the Questionnaire in the Kujawsko-Pomorskie Voivodeship. The total value of the planned investments submitted amounts to PLN 1,355.6 M. The average value of the projects submitted was PLN 75.3 M. Two of them had budgets exceeding PLN 100 M. More than a half of all potential projects were submitted by representatives of local municipalities (57.1%).

**Distribution of the value of projects** | **Sector**



**Demand for Financial Instruments** | **Type of beneficiaries**



Source: own study based on the Questionnaire.

In relation to other Regions, a relatively lower number of projects in the Questionnaire concerned urban regeneration (19.0%). In most of the Regions, that percentage was the highest out of all project types (the average share for all 9 Regions is 43.6%). A substantial part of the investments in the Kujawsko-Pomorskie Voivodeship were business support institution projects (23.8%). Out of all projects, 33.3% were categorised by the respondents as “Others”. Those included road development, medical facilities development, and tourism and recreation projects.

As with other Regions, the majority of respondents prefer grant funding (61.9%), and only a minor part declared willingness to use a loans (4.8%) and guarantees (4.8%).

### 2.2.2. Identified Long List

The presentation of all projects identified in the Region can be found in Appendix III.

### 2.2.3. Presentation of an Interim list

The presentation of all projects in the Interim List can be found in Appendix IV.

### 2.2.4. Identification of two Case Studies

Project	Beneficiary	Sector	Value (PLN M)
Combined Heat and Power Production	PEC Brodnica	Energy	15
Regeneration of downtown in Grudziądz	City of Grudziądz	Urban regeneration	90

### 2.2.5. Detailed analysis of two Case Studies

The presentation of two Case Studies analysed in the Region can be found in Appendix V.

### 3. RECOMMENDATIONS & CONCLUSIONS

Potential project demand for FIs in each of four subsectors have been defined for the Kujawsko-Pomorskie as following:

Figure 57: Potential demand for Financial Instruments for Kujawsko-Pomorskie

In PLN millions	Energy	Urban	Business Environment	Others	Total
JESSICA-type Equity	55-65 M	25-30 M	15-20 M	20-27 M	
JESSICA-type Loans	125-145 M	35-40 M	30-35 M	20-25 M	
JESSICA-type Guarantees	50-55 M	5-10M	10-15M	5M	
<b>Estimated FI Size</b>	<b>185-215M</b>	<b>65-70 M</b>	<b>50-55 M</b>	<b>55-65M</b>	<b>345-405 M (€80-95M)</b>
<b>Estimated Co-Investments</b>					<b>670-730M</b>
<b>Estimated Leverage Factor</b>					<b>~2.6</b>

In line with the priorities of Kujawsko-Pomorskie outlined in the first version of the ROP under Priority XI: Urban policy, Priority XII: Local Community-led Development and the demand analysis, the primary focus of FIs should be on **urban development** and **energy efficiency**.

FIs may be also applied in the eligible projects under the following Priority Axes:

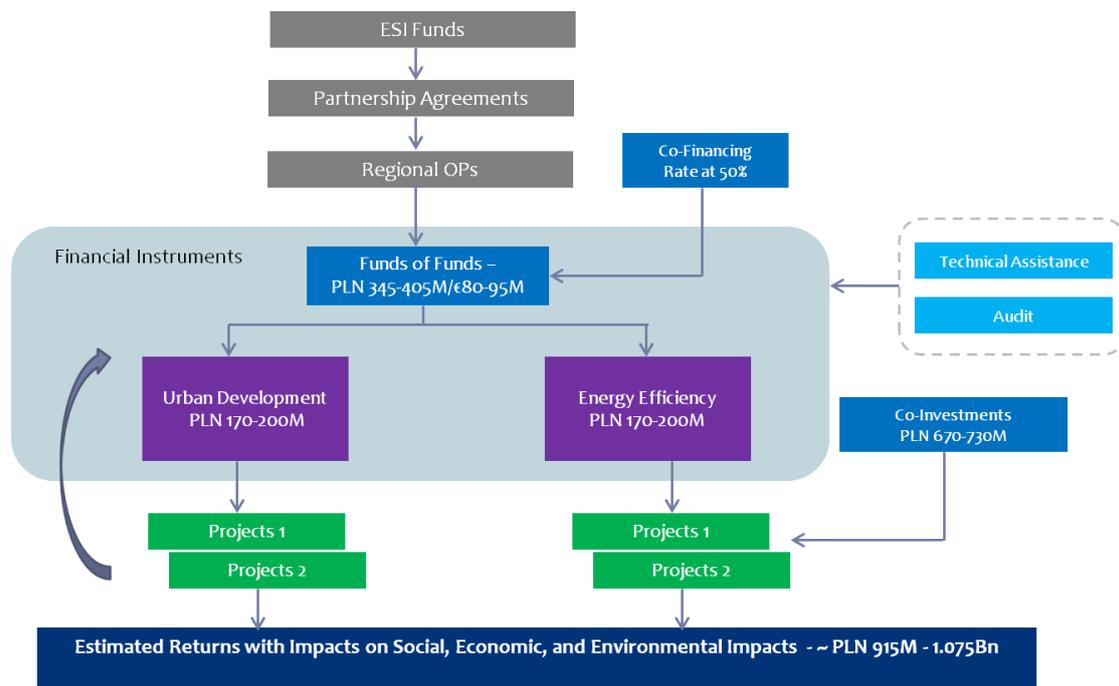
- Priority Axis I: Support for the regional innovation through R&D companies (specific objectives: an increase of links between science and business; an increase in awareness of the importance of developing cooperation between science and business);
- Priority Axis II: Supporting competitiveness of the regional economy (specific objective: an improvement of conditions for the establishment of companies);
- Priority Axis IV: Low-emission economy (specific objective: improvement of energy efficiency of SME);
- Priority Axis VI: Eco-friendly Region (specific objective: improvement of sewage and waste management).

Based on the market analysis, a proposed FI size could potentially be circa PLN 345-405 M/€80-95 M. Based on the Questionnaire and the market analysis as described in detail in Chapter 8 *General Definition of Financial Gap* of Part I of this Study, Projects would support the development of tourism, improvement of the urban environment through revitalising former post-industrial areas, and develop business parks which seek to assist SME start-ups and create local employment opportunities.

Under a **Fund of Funds** structure to capitalise on expertise and spread the risk, it is suggested that two UDFs should be created:

- **Urban Development** that would offer equity and loans for eligible projects falling within the LRPs and urban development strategy. There will be no geographical restrictions except 30% of funds should be ring-fenced for smaller and medium sized municipalities to avoid investments strictly in larger cities. Projects could include improvements in urban façade, upgrade on street lighting systems, and preservation of historic landmarks. It might be considered further ring-fencing of funds for Bydgoszcz and Toruń ITI initiatives to incentive metropolitan cooperation and development of metropolitan futures of a bi-pole al growth centre.
- **Energy** in line with the regional strategy Kujawsko-Pomorskie that makes explicitly the need to support energy efficiency and the use of renewable energy in public building, therefore, the second UDF should focus on energy-related projects. The Case Study for the combined heat and power plant in Brodnica serves as a good example of how FIs could support investments in energy-related projects which otherwise would not happen, whilst also achieving the climate change and low carbon emission agenda of the Region.

**Figure 58: Indicative Organisational Scheme for Kujawsko-Pomorskie**



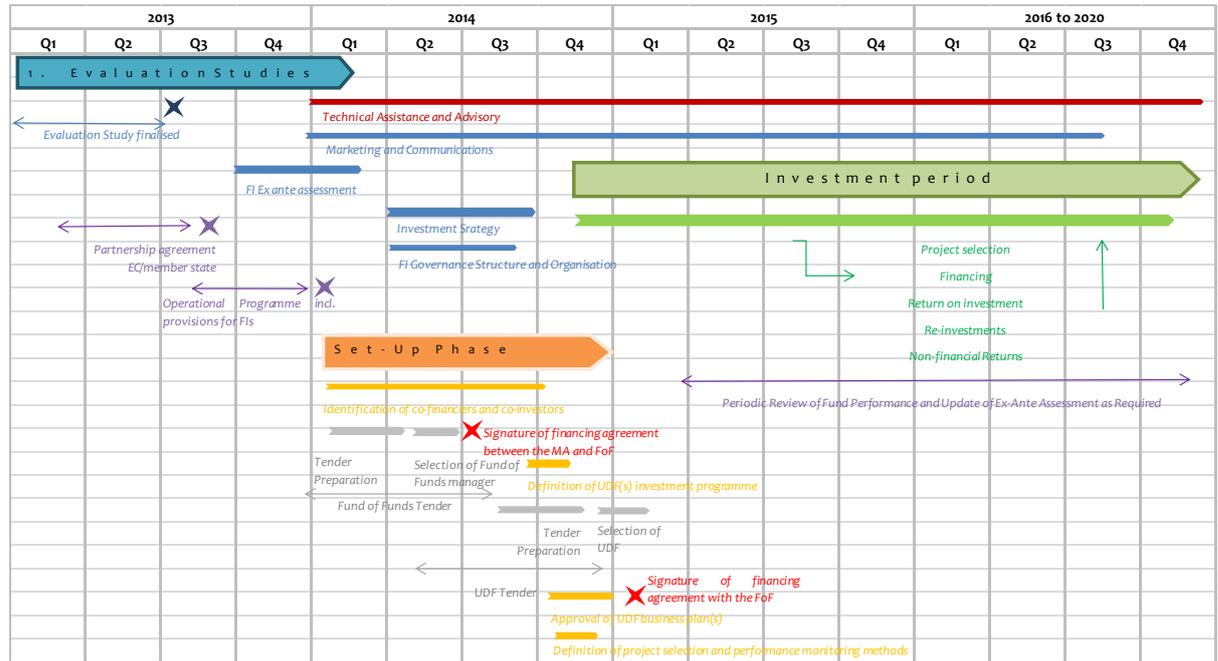
In order to capitalise on the benefits of FIs over the longest period, FIs need to be operational ideally by late 2014 or beginning of 2015. This allows for sufficient time to develop the investment strategy and scope to be undertaken after the Partnership Agreement and ROPs are finalised in the first half of 2014 (timescales to be confirmed by the Commission). MAs are encouraged to conduct an ex-ante assessment as soon as possible and start with the tender process to procure a Holding Fund Manager.

Should the Kujawsko-Pomorskie wish to appoint the EIB as the Fund of Funds Manager, then this can be done as a direct award without going through the formal procurement process, which can take up to 6 months. Alternatively, subject to national procurement laws, Kujawsko-Pomorskie can also entrust implementation of FIs according to the Article 38 CPR to:

- directly to the EIB;
- international financial institution in which a Member State is a shareholder, or financial institutions established in a Member State aiming at the achievement of public interest under the control of a public authority; or
- a body governed by public or private law.

The MA may also implement FIs directly, but in this case FIs are limited to loans and guarantees.

Figure 59: Indicative Implementation Timescale for Kujawsko-Pomorskie



## II. ŁÓDZKIE

### 1. REGIONAL POLICY CONTEXT

#### 1.1. Analysis of the general conditions in Łódzkie Region



Area (ths km <sup>2</sup> )	18,218
Population (ths 2010)	2,534
Urbanisation ratio*	64.4 %
Unemployment rate (2012)	13.2%
Relative average salary** (2011)	89,5

Source: The Central Statistical Office

\* urban population as a percentage of total population

\*\*average monthly gross salary to the national average (Poland = 100)

#### 1.1.1. General Presentation and Experience to Date

##### Key features and challenges of the Region's urban areas

The Łódzkie Voivodeship comprises 42 towns and cities. The settlement network is mainly composed of small villages. However, city areas play an important role in the Region's development with the capital city of Łódź constituting 28.5% of its population<sup>12</sup>. The Łódzkie Voivodeship is an area where the processes of rapid degradation of the urban structure, and post-industrial and post-military facilities is particularly visible; due to the economic transformation which occurred in the early 1990s, which resulted in the collapse of the industry sectors which had until then constituted the Region's economic base (light industries, particularly the textile industry)<sup>13</sup>.

The key urban policy challenges faced by the Łódzkie Voivodeship cities include:

- Asymmetry of urban settlement network;
- Unfavourable demographic situation of most cities of the Region;
- Relative low work activity rate among the population of most of the Region's cities; and falling numbers of those finding employment in the Region's urban economies; as compared to other cities of the country;
- Inordinately slow rate of urban economic restructuring, particularly in the smallest towns and cities;
- Unmet housing needs and low quality of the housing stock;
- Undermanaged suburbanisation process; and
- Many degraded urban areas; requiring revitalisation.

The key opportunity for the Region lies in development of the Łódź Metropolitan Area ("ŁMA") while the key threat is the diminishing importance and standing of the Region's capital city among Poland's urban centres.

In general, the Łódź Metropolitan Area faces challenging demographic trends such as aging population where one out of every four inhabitants of Łódź is over 60 years of age. The situation is further

<sup>12</sup> Socio-Economic Situation in Łódź 2012, Statistical Office in Łódź

<sup>13</sup> Regional Operational Programme of the Łódzkie Voivodeship 2007-2013, p.47

exacerbated by very low economic activity of the city's population in the 50-and-over age group<sup>14</sup>. One of Region's strength is the positive net migration registered by 21 administrative units of ŁMA, signalling the relative attractiveness of the Metropolitan Area. This is why support for ŁMA has been chosen as one of the key measures promoting development of the Voivodeship. An important contributing factor in the development the entire Metropolitan Area is its communication networks and transport accessibility with focus on a system of connectivity of motorways and expressways.

### **Experience in using Financial Instruments**

The Łódzkie Voivodeship did not participate in the JESSICA initiative in the course of the 2007-2013 Programming Period due to the lack of funds and insufficient time remaining for implementation, though there were initial discussions and potential interest. The Region is however engaged in the JEREMIE initiative to support SME development. By the end of 2012, approximately 500 Łódzkie-based enterprises took advantage of the support offered under JEREMIE.

Stakeholders interviewed in the Łódzkie Voivodeship stated that there is limited experience in implementation of FIs within the Region. However, the city of Łódź has extensive experience in the implementation of revitalisation projects, and equally extensive financial needs in the same area. Until now, such projects have been financed exclusively from grants and the city's own budgetary resources. In order to cover its own contribution requirements, the city of Łódź has drawn from lines of credit it holds with Getin Noble Bank, EBRD, EIB and CEB. Representatives of Region's cities stated that to date they had focused primarily on correct use of the available funding, which is one of the reasons why the Region did not considered using FIs. One exception is the city of Piotrków Trybunalski, where the municipal authorities have applied for various loan towards, for example development of the city's tourism and cultural infrastructure through revitalisation of its historic heritage areas.

#### **1.1.2. Description of the Łódzkie Region and the key priorities for the Region's development - Regional / local strategies and investment needs**

##### **Urban areas in the Region**

In many cities and towns of the Łódzkie Voivodeship, including its capital city, there are areas characterised by a high degree of degradation of the historical structures of buildings and facilities (including post-industrial and post-military buildings, and buildings of great architectural value and historical significance), which has led to the economic and social collapse of those areas. The process of regeneration of towns and cities will improve their social and economic potential, and – in effect – increase their attractiveness for potential investors.

When assessing the potential of the Łódzkie Voivodeship urban areas, there needs to be consideration of the prominence of the Łódź Metropolitan Area which spans 2862.8 km<sup>2</sup> or 15.7% of the Łódzkie Voivodeship area. In 2011 the Łódź Metropolitan Area encompassed 35.9% of all urban and built up land areas of the Łódzkie Voivodeship.<sup>15</sup>

##### **Key strategic documents in the context of urban development**

Taking into account the aforementioned needs, the strategic and policy documents focus on the need to revitalize major cities in the Łódzkie Voivodeship. This is also reinforced in the 2007-2013 Regional Operational Programme of Łódzkie: "Over half of the 42 cities of the Voivodeship have developed or are in the process of developing their local revitalisation programmes. The vast majority of those programmes are addressed to urban areas, with programmes of five cities covering post-industrial areas and of one

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<sup>14</sup> Uwarunkowania demograficzne Łodzi (Determinants of the demographic profile of Łódź), GUS, 2011

<sup>15</sup> Łódź Metropolitan Area in the years 2008–2010, Łódź 2011, p. 24

covering former military use areas. Another five cities, which have yet to draft their programmes, have nonetheless performed preliminary identification of areas requiring revitalisation<sup>16</sup>”.

The developmental challenges identified in the Łódzkie Voivodeship Development Strategy 2020 (“LVDS 2020”) include development of major urban centres and multifunctional development of rural areas; processes calling for improved exploitation of the development potential of Łódź and the Region’s major urban centres for: fostering and absorption of innovation; development of the creative sector; employment growth; developing inter-linkages; developing and improving land management; and for intensification of the revitalisation processes<sup>17</sup>.

As one of the Strategy’s operational objectives – Operational Objective no.9 “Sustainable Settlement System” provides for the following interventions:

- support for the processes of revitalisation and improvement of land management, including revitalisation of degraded urban housing and post-industrial areas, among others, through: support for development and implementation of integrated projects encompassing comprehensive urban renewal; organisation of workshops and conferences which consider various solutions to the problems of degraded urban areas; support for conservation efforts aimed at restoration of historic heritage landmarks and areas and for putting historic buildings to new cultural, social, educational, tourist or economic use; organisation of competitions for the best performed revitalisation and redevelopment projects;
- management of the cultural landscape, including provision of high quality public space; prevention of the chaotic / uncontrolled suburbanisation; and dissemination of best practices in regional architecture, among other things, through: formulation of the terms of reference for land management; thereby stimulating the development of local spatial development plans, historical studies and regional architecture directories; sponsorship of architectural design competitions for the best public space development projects; promotion of the most valuable and attractive features of the cultural landscape, especially those with a potential for becoming the emblematic feature of a location.

The LVDS 2020 also outlines the financing needs, which can be met, among others, through: engagement of private sector funding through loan, guarantee and credit insurance funds; and development of FIs based on Public-Private Partnership (PPPs) which involves public entities and their private sector partners in joint implementation of projects with clearly allocated tasks and risks.

The review of the Region’s strategic documents<sup>18</sup> has yielded a list of the key areas of intervention, which include:

- Implementation in the Łódź Metropolitan Area of urban projects aimed at supporting the development of sub-regional urban centres and the smaller cities; expected to result in improved territorial cohesion of LMA;
- Delimitation of the problem areas in the cities of the Region (areas with a mix of old residential and industrial development);
- Spatial concentration of projects in the “Old Łódź” area, with the aim of preventing further degradation of Łódź and decline in settlement attractiveness of the city;
- Identification of the current status of redevelopment of post-industrial sites in the cities of the Region and of the development potential of those sites;

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<sup>16</sup> Regional Operational Programme of the Łódzkie Voivodeship 2007-2013, p.34

<sup>17</sup> Łódzkie Voivodeship Development Strategy 2020

<sup>18</sup> Assessment of the competitiveness of use renewable energy in the Łódzkie Region, Diagnosis of Łódzkie Voivodeship, 2005, E-Łódzkie 2013 – Programme for the Development of Information Society in Lodz Voivodeship until 2013, Implementing JESSICA Instruments in Łódzkie Voivodeship, RDS of Łódzkie Voivodeship, 2007-2020, Regional Programme for Protection of Monuments 2012-2015, ROP for Łódzkie Voivodeship, 2007-2013, The draft of the integrated development of the City of Łódź 2020+, Implementing JESSICA Instruments in Łódzkie Voivodeship

- Restructuring of the economies of the Region's smaller cities, with the aim of countering their depopulation;
- Implementation of integrated PPP revitalisation projects on post-industrial areas with the aim of increasing the social and economic potential of degraded urban areas, and ultimately increasing attractiveness of those areas for potential investors;
- Implementation of projects aimed at enhancing the security of buildings and larger facilities, and crime prevention in degraded areas under revitalisation;
- Implementation of investment projects aimed at: direct renovation of the housing stock and leading to improved living conditions for the tenants and improving the quality of the housing stock; and revitalisation of the problem areas specified in the Local Revitalisation Programmes and/or the Integrated Local Development Programmes, or delimited anew;
- Drafting of urban development related programming documents, such as: spatial development plans of the Metropolitan Area; regulations and instruments of management of the Metropolitan Area: the transport system modernisation programme (aimed at improving the links interconnecting the centres of settlement); and strengthening of the planning capacity required for development of the bipolar Warszawa – Łódź system; and
- Support for development of new services and manufacturing functions in the regional and supra-local centres.

### **1.1.3. Experience in programmes / initiatives focusing on urban development, implemented in the Region**

The key experience of the Region in implementation of programmes focusing on urban development has been the implementation of the priority axis VI of the ROP of the Łódzkie Voivodeship 2007-2013: Revitalisation of urban areas. Its aim has been that of achieving social and economic recovery of the degraded urban areas. The following operational objectives have been defined within the axis:

- Revitalisation of the architectural structure of post-industrial and post-military areas and facilities;
- Increasing attractiveness of urban areas for local and external investors; and
- Restoration of degraded residential districts, including revitalisation of the housing stock.

The types of projects currently supported within the framework of the priority axis VI are as follows:

- Integrated PPP revitalisation projects; promising to increase the social and economic potential of degraded urban areas, and resulting in their improved attractiveness for potential investors;
- Projects aimed at enhancing the security of buildings and larger facilities, and crime prevention in degraded areas under revitalisation:
- Installation of appropriate fire and burglary protection systems in the revitalised buildings and of monitoring systems in the interest of improving public safety;
- Preparation of sites for implementation of new commercial investment projects (including provision of dedicated infrastructure; demolition of larger facilities; adaptation of facilities for commercial use); and modernisation of the existing network Infrastructure, which is expected to contribute to social and economic recovery of the revitalised areas (comprehensive works),
- Investment projects involving direct renovation of the housing stock, with the aim of improving living conditions for the tenants and the quality of the housing stock; and revitalisation of the problem areas specified in the Local Revitalisation Programmes and/or the Integrated Local Development Programmes approved by the relevant territorial self-government units, so as to ensure their implementation with due consideration of their comprehensive and long term nature and of social consensus.

### Figure 60: Sample experience in implementation of urban development projects

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In 2004 the city of Łódź applied for project financial support under ROP (measure 3.3, Degraded urban, post-industrial and post-military sites). Łódź obtained financial support for the project entitled: “Revitalisation of the urban development of Łódź in the vicinity of Nawrot street – renovation of the buildings along the Nawrot street”.

In the second call for projects, Łódzkie Voivodeship received seven project applications, of which six were accepted and provided with financial support from ERDF and ESF. The following cities and towns were the beneficiaries of the funds: Łęczyca (Revitalisation of the Historic City Centre of Łęczyca), Łowicz (Restoration of the Historic New Market and Modernisation of the Concert Shell as part of the City of Łowicz Revitalisation Programme), Bełchatów (Visual monitoring of a revitalised area – Bełchatów City Centre, Phase I), Zgierz (Revitalisation of the City Centre Zone in the City of Zgierz) and the Złoczew commune (Renovation of the existing Złoczew Palace for the social and cultural needs of the City and Gmina). Total financial support awarded through the first and second call for projects amounted to over PLN 20 M.

A call for applications for the Indicative Investment Plan of the ROP of the Łódzkie Voivodeship for 2007-2013 was announced in December 2006 by the Management Board of the Łódzkie Voivodeship for integrated project entitled “Revitalisation of a central area of Łódź delimited by the Piotrkowska – Tuwima – Kilińskiego – Piłsudskiego streets”. The Management of the Łódzkie Voivodeship added the project to the list of individual key projects of the Łódzkie Voivodeship ROP for the years 2007-2013; and on 6 March 2009 the Łódzkie Voivodeship and the City of Łódź signed a project preparation agreement. The estimated project value stands at PLN 105 M, with the grant provided by the ERDF in the amount of PLN 65 M. It has been assumed that the remaining expenditures would be incurred by the budget of the City of Łódź, by Widzewskie Towarzystwo Budownictwa Społecznego Sp. z o.o. (Widzew social housing company LLC), the City’s subsidiary and by the condominium associations being the project implementation participants. Due to the problems with technical documentation of the investment the project had to be excluded from the list of the individual (key) projects list. The project is planned to be implemented in the 2014-20 Programming Period.

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Source: Local Revitalisation Plan and “The Diagnosis of the Łódzkie Voivodeship, 2005”

A conclusion that can be drawn from the information provided in the course of the interviews with the Marshal’s Office is that urban development and revitalisation projects have relied primarily on grants and subsidies. Only some grant beneficiaries acquired loans for the purpose of funding their own contribution required in the grant appropriation process. Hence, there is some experience in combining FIs with grant financing, though very limited. Similar range of experience is being reported by representatives of the Łódzkie Voivodeship cities: they tend to use subsidies and grants, or own budgetary funds (with the exception of the cases in which they draw on loans to be able to provide own contributions in the process of acquiring subsidies or grants). In the case of Piotrków Trybunalski, the municipality financed its projects through such instruments as subsidies and grants, Voivodeship Fund for Environmental Protection and Water Management loans as well as commercial bank loans.

Representatives of cities have mentioned that they were not in position to decide on implementation of FIs via the JESSICA initiative, as this is primarily the decision of the Marshal’s Office.

#### 1.1.4. Description of the draft assumptions to new ROPs

##### Regional Operational Programme for the Łódzkie Voivodeship for the years 2014-2020

As of June 2013, the ROP for 2014-2020 had not been drafted - only the preliminary assumptions are available. Based on the assumptions, the focus of the ROP for the Łódzkie Voivodeship is likely to provide for support for physical, economic and social revitalisation of impoverished communities and urban as well as rural areas through the following urban development objectives: Improvement of the condition of social infrastructure; development of information and communication technologies for public services; and support for revitalisation of degraded urban and post-industrial areas:

- Increasing attractiveness degraded residential and post-industrial areas within LMA; and
- Social and economic recovery of the degraded areas within LMA.

The use of FIs is anticipated, among others, in execution of the priority axis V, Social infrastructure, information and communication technologies in public services, and revitalisation of degraded residential and post-industrial areas; and of the priority axis VI, Revitalisation of degraded residential and post-industrial areas within LMA, in the framework of the Thematic Objective: Supporting social inclusion and combating poverty.

The draft ROP was prepared and the tender for the ex-ante evaluation was announced in the middle of May.

### **Łódzkie Voivodeship Development Strategy 2020**

The Łódzkie Voivodeship Development Strategy 2020 states that the primary instrument to be used in implementation of the strategy will be the territorial contract: implemented by way of development programmes and operational programmes, and financed from EU and domestic funds. The territorial contract provides for an instrument dedicated for the support of urban and other functional areas: the Integrated Territorial Investments (ITIs), which combine measures financed from ERDF and ESF.

Due to the early stage of the programming process, the areas of thematic focus are yet to be finalised (i.e. what areas the territorial contract funds will be addressed to). It can be assumed that in the Łódzkie Region these will be:

- Łódź and its functional urban areas (FUAs);
- Sub-regional centres: county (powiat) cities of above 20 thousand inhabitants, with their FUAs;
- County cities in the process of losing their social and economic functions;
- Rural areas with poor access to public services<sup>19</sup>

There are a number of strategic interventions that include areas with the impact zone of the TEN-T network. These areas of strategic intervention include the Bełchatów-Szczerców-Złoczew Mining and Energy Basin and the Opoczno-Tomaszów Mazowiecki Ceramics and Construction Materials Basin.

### **Local Revitalisation Plan of Łódź**

In order to identify projects that could potentially take advantage of FIs -- in addition to the information obtained through the Questionnaire -- we reviewed the Local Revitalisation Plan of Łódź as the main city in the Region. As of mid 2013, the Łódź municipality has implemented in its area a number of projects described in that document while its further plans provide for implementation, among others, the following investment projects:

- Historic “Family Houses” revitalisation programme;
- Revitalisation of a central area of Łódź delimited by the Piotrkowska-Tuwima-Kilińskiego-Piłsudskiego streets;
- New Łódź City Centre Programme: Revitalisation of the EC-1 heating plant and its conversion into a culture and art centre, the Special Art Zone.

<sup>19</sup> The areas specified in the National Strategy of Regional Development 2010-2020: Regions, Cities, Rural Areas

### Figure 61: Revitalisation of the historic “Family Houses”

The “Family Houses” workers housing revitalisation process will employ a property exchange mechanism. An investor selected through a competitive procedure will build a new housing with units for the current inhabitants of the historic “Family Houses” and transfer the ownership rights to those new properties to the municipality. In exchange it will receive the ownership rights to the “Family Houses”.

The new buildings need to provide a standard at least equivalent to that provided by the municipality in its newly built social housing, while their total usable area needs to be at least 10% larger than that being obtained by the investor. The investor will be required to conduct the modernisation of the “Family Houses” in compliance with an architectural brief and landmark conservation guidelines.

The project is being implemented by the Investment Office of the City of Łódź Administration Office.

Source: Local Revitalisation Programme, Investment Office of the City of Łódź

### Figure 62: New Łódź City Centre

The programme addresses the needs of the city’s priority area; of significance in terms of its revitalisation issues and economic development. This encompasses nearly 90 ha of the city’s central district: in the vicinity of the Dworzec Łódź Fabryczna railway station. The main objective of the programme is to create a new functional city centre with a large number of public spaces, which will be built out with participation of private sector funding. The project has attracted a number of highly respected names (Rob Krier, David Lynch, Frank Gehry or Daniel Libeskind, to name a few) and generated a lot of interest.

The area included in the programme includes the Dworzec Łódź Fabryczna station with its infrastructure and immediate surroundings, which are a place of initial contact with the city for those arriving in Łódź. The key elements of the planned transformation of that area will be the projects which will: transfer the station’s entire rail infrastructure underground; and develop modern transport solutions for optimised service of the area. The programme will result in establishment in that location of a multi-modal transport hub, which will combine the service functions of mass urban, regional and international transport. This massive-scale project will be implemented jointly by Polish railway companies: PKP S.A. and PKP PLK S.A. with the City of Łódź.

The area included in the programme has been subdivided into two zones. In the first zone will be one in which the cultural function will be dominant and where the reconstruction of the Dworzec Łódź Fabryczna railway station and its vicinity will take place. The second zone will be reserved for commercial projects.

The key programme implementation entities include: “EC1 Łódź – Miasto Kultury” Cultural Institution, Investment Office of the City of Łódź Administration Office, Roads and Transport Authority of Łódź.

Source: Local Revitalisation Programme, Investment Office of the City of Łódź

#### 1.1.5. Smart Specialisation Strategy

As of June 2013, the works on the Regional Innovation Strategy for Łódzkie Voivodeship (LORIS) until 2030 are still in progress. It includes the criteria for selecting research, development and innovation priorities (smart specialisations). The smart specialisation was consulted with different stakeholders in March 2013 (eg. entrepreneurs, research units, local government units, business institutions). The following areas of smart specialisations are considered:

- Biotechnologies
- Mechatronics
- Nanotechnology and functional materials,
- Information technologies

Although the Region plans to concentrate on projects in the areas listed above, there are also many projects concerning urban revitalisation to be developed in the new Programming Period.

## 2. FINANCIAL INSTRUMENTS & CASE STUDY ANALYSIS

### 2.1 Initial identification of supply and demand side, including previous market failures

#### 2.1.1 Supply side

##### 2.1.1.1. Description of the Financial Instruments currently available in the Region

In 2012, 7 loan funds, 2 guarantee funds, 2 seed capital funds and 1 business angel network operated in the Łódzkie Voivodeship.

Figure 63: Key players in the regional Financial Instruments market

7	Loan funds	Guarantee funds	2
<ul style="list-style-type: none"> <li>• Fundusz Pożyczkowo-Poręczeniowy (Loan and guarantee fund)</li> <li>• Łódzka Agencja Rozwoju Regionalnego (Regional Development Agency)</li> <li>• Fundacja Inkubator (Business Incubator)</li> <li>• Regionalny Fundusz Pożyczkowy Łódź (Regional Loan Fund in Łódź)</li> <li>• Piotrowskie Stowarzyszenie Wspierania Przedsiębiorczości (Association for Enterprise Support in Piotrków)</li> <li>• Fundusz Rozwoju Przedsiębiorczości (Fund for Enterprise Development Fund)</li> <li>• Żelowski Fundusz Przedsiębiorczości (Enterprise Fund in Żelów)</li> </ul>		<ul style="list-style-type: none"> <li>• Agencja Rozwoju Regionu Kutnowskiego (Regional Development Agency in Kutno)</li> <li>• Fundusz Poręczeniowy of Łódzka Agencja Rozwoju Regionalnego (Guarantee Fund of the Regional Development Agency in Łódź)</li> </ul>	
2	Seed capital funds	Business angel networks	1
<ul style="list-style-type: none"> <li>• Investment Fund established as part of a project entitled “Innovation – Key to Success”</li> <li>• Fundusz Start Money (Seed Capital Fund “Start Money”)</li> </ul>		<ul style="list-style-type: none"> <li>• Gildia Aniołów Biznesu (Business Angels Guild)</li> </ul>	

Source: *Ośrodki Innowacji i Przedsiębiorczości w Polsce 2012 – raport końcowy* (Centres of Innovation and Entrepreneurship in Poland 2012 – Final Report), Association of Organisers of Innovation and Entrepreneurship Centres in Poland, Warsaw 2012

##### 2.1.1.2. Guarantees

#### The Credit Guarantee Fund

Fundusz Gwarancji Kredytowych (or Credit Guarantee Fund) administered by Łódzka Regional Development Agency provides guarantees against investment and working capital loans to be used solely for the running and development of business operations. The maximum guarantee amount is PLN 500,000 and will not exceed 60% of guaranteed loan value. Within the two years of operation of this instrument, the agency executed over 300 agreements totalling to ca. PLN 81 M. In granting loans and guarantees, Łódzka Regional Development Agency (coordinating entity) is able to accept higher development risk than commercial banks. The share of start-ups among its supported enterprises has been relatively large; estimated at ca. 20%. However, Łódzka Regional Development Agency has no direct experience in financing urban projects or strict revitalisation project.

### 2.1.1.3. Loans

In the loan funds of the Łódzkie Region granted a total of PLN 8.9 M in loans, which was one of the highest results among the analysed voivodeships.

### 2.1.1.4. Equity

In the risk capital market, seed capital funds and the regional business angel network have been active in providing financial support at the initial phase of business development. The Start Money Investment Fund operating in conjunction with the University of Łódź is able to provide highly promising business venture with support of up to EUR200,000. One of the fund's flagship project is an investment in the Frecky Games computer games company that proved to be successful in the internal and international market. Investment Fund, the other seed capital fund in the Region, was formed as part of a project entitled "Innovation – Key to Success" as is an element of a broader support programme being implemented by Bełchatowsko-Kleszczowski Technology Park. In its scope, the project includes provision of technical assistance and business infrastructure and services to new enterprises. Gildia Aniołów Biznesu or the Business Angels Guild is part of Łódzka Regional Development Agency. The fund accepts applications from all business sectors while its investment decisions are based primarily on assessment of (high) growth potential.

### 2.1.1.5. JEREMIE

The JEREMIE initiative is being implemented in the Region (with Łódzka Regional Development Agency responsible for the implementation). The agency extends loans and guarantees to entrepreneurs of the SME sector. The loans of maximum PLN 250,000 (previously up to PLN 500,000) are granted toward financing of capital expenditures.

In the Łódzkie Voivodeship the JEREMIE initiative has been provided for and operates as part of the measure 3.4, Development of business related services. Total of over PLN 188 M has been earmarked for to support of that objective. Nine institutions are involved in providing that support in the form of various type loans and guarantees. As of mid 2013, around 500 enterprises of the Łódzkie Region have benefited from the JEREMIE sourced support.

## 2.1.2. Demand side

### 2.1.2.1. Prevailing urban development project typologies that could be eligible for JESSICA financing

In terms of the four key thematic areas of investment projects provided with the support of the JESSICA programme, the greatest number of projects declared in the Łódzkie Voivodeship represented the revitalisation of urban areas (8) and the social infrastructure (3) categories. The remaining two areas of energy and business support institutions accounted for 1 and 2 projects respectively. Territorial self-government units (16) clearly took up the dominant position in the structure of the potential programme beneficiaries.

Figure 64: Number of projects by sectors and subsectors

8	Revitalisation urban areas	Energy	1
1	Revitalisation of post-industrial and post-military sites	Energy efficiency	1
		Waste management	0
		Photovoltaics	0
7	Comprehensive refurbishment of run-down buildings	Other renewable energy sources	0
		District heating	1

2	Other	Other	0
3	<b>Social infrastructure</b>	<b>Business environment</b>	2
1	Schools and nurseries	Research and development / innovation	1
0	Hospitals and long-term care	SMEs	1
3	Social and council housing	Business incubators and technology parks	1
1	Public buildings		
0	Other	Other	1
4	<b>Sustainable transport</b>	<b>Other</b>	6

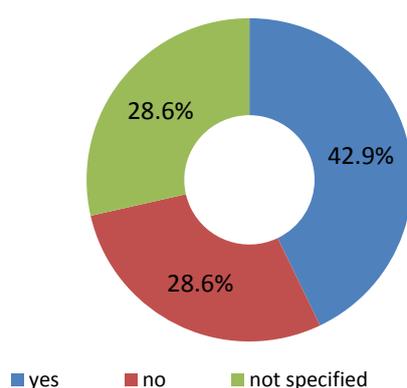
Source: Proprietary work, derived from the Questionnaire

Note: Some of the projects have been classified into more than one category; hence, the sum of projects in all the categories is greater than the total number of submitted project proposals.

### 2.1.2.2. Potential appetite of final recipients (including municipalities) for the use of Financial Instruments in urban development

The Marshal's Office has not conducted any research on the interest of beneficiaries in FIs. The Questionnaire sent out to potential beneficiaries in the course of the study allowed the research team to compile a high level preliminary list of prospective project proposals, of which only 2 projects were accompanied by declarations of interest in using FIs in the implementation phase. This implies limited interest of FIs among potential beneficiaries; most likely arising from insufficient knowledge of FIs. In the assessment of the Marshal's Office, interest in FIs will be limited for as long as non-refundable instruments continue to be available in parallel. Greatest interest in the FIs is expected to come from entrepreneurs. However, it will depend on availability of these preferential FIs as compared to availability of commercial loans. Despite still relatively high preference for grants, only 29% of the respondents rejected the possibility of using FIs as a form of financing should the be the only financings available in the new Programming Period for their projects. In the Project Team's opinion, this preference for non-refundable support is natural at this stage while the potential interest of 71% of the respondents in FIs should be regarded as positive.

Figure 65: Interest in FIs if they were the only form of financing for projects available in the 2014-2020 Programming Period



Source: Proprietary work, derived from the Questionnaire

Grant funding was the most popular form of financing among the respondents; irrespective of the sector or respondent type. In only 2 cases, the project promoters indicated interest in using equity instruments. These were: the "Piotrowska Plus" Łódź city centre revitalisation project; and the "Innovation – Key to Success" project of the Bełchatowsko-Kleszczowski Technology Park.

Figure 66: Demand among sectors for respective Financial Instruments

Sector	Equity instruments	Loan	Guarantee	Grant	No response	Total
Urban regeneration	1	0	0	7	0	8
Energy	0	0	0	1	0	1
Social infrastructure	0	0	0	3	0	3
Business environment	1	0	0	0	1	2
Sustainable transport	0	0	0	2	2	4
Other	0	0	0	4	2	6

Source: Proprietary work, derived from the Questionnaire

Figure 67: Demand among beneficiaries for respective Financial Instruments

Beneficiary type	Equity instruments	Loan	Guarantee	Grant	No response	Total
Territorial self-government units	0	0	0	15	1	16
Public sector companies	0	0	0	0	1	1
Private sector companies	1	0	0	0	0	1
Research institutions	0	0	0	0	0	0
Other	1	0	0	0	2	3
<b>TOTAL</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>15</b>	<b>4</b>	<b>21</b>

Source: Proprietary work, derived from the Questionnaire

The demand for FIs was also tested with representatives of the Region's cities in the course of interviews. As indicated by the representative of the City of Łódź, many of the planned revitalisation investment projects pertain to areas inhabited by the elderly, the socially excluded, and persons with low incomes. For that reason, in the opinion of the representatives of the city, it will not be possible to use FIs for financing of those projects as projects some projects do not yield revenues or income. In such cases, it is clearly more desirable to finance such projects with grants and subsidies.

The city of Piotrków Trybunalski had no particular preference for the use of FIs in financing urban development projects. The factor driving their decisions will be the assessment of potential relative benefits of certain FIs.

Among the factors potentially stimulating the use of FIs, the representatives of the Marshal's Office mentioned: accessibility of FIs exceeding that of commercial loans. In the opinion of the representatives of the Marshal's Office, another factor that can contribute to greater interest in FIs would be: less restrictive conditions which need to be met when seeking financing through these FIs. The current limited interest in FIs is – in the opinion of the respondents – a consequence of availability of the non-refundable instruments, such as grants or subsidies. Based on previous experience and the knowledge acquired through discussions with representatives of other institutions, the Marshall's office's view is that if there is any real interest in FIs will be realised once the possibility of financing projects from subsidies and grants is exhausted.

In the opinion of a representative of the Marshal's Office, the sectors in the new Programming Period which could be financed through FIs include: energy, district heating networks, gas distribution and waste management. This group also includes revitalisation projects; in a meaning that extends beyond the narrow physical renovation of buildings. In the opinion of the Marshal's Office, FIs should not be applied, however, toward such projects as construction or rehabilitation of local roads or thermo-modernisation of public buildings. The potential benefits accruing from implementation of projects should be the main criterion used in selection of projects warranting support.

At the same time, economic indicators of a project, such as its employment generation potential, profitability, rate of return on capital and its impact in terms of improving the social and economic conditions of a locality should also be taken into account. Such aspects as the form of organisation of the beneficiary and project value were perceived as of clearly secondary importance.

In the opinion of the Marshal's Office, territorial self-government units will probably not be interested in implementation projects with the use of FIs because loans count toward their debt position and limits. Worth considering in the future would be the possibility of engaging a structure enabling exclusion from the public debt of the loans the territorial self-government units would draw in the form of FIs. These options will be further analysed during the works on the Final Report, after the Case Studies are completed. The Project Team will in particular scrutinise the potential use of possible support instruments that might offer an off-balance sheet treatment as for example support agreements or capital contribution agreements that might to certain extent address commercial risk but do not automatically increase public debt level.

Thus, in addition to the aforementioned possibility of treating FIs as off-balance sheet items, the main ways in which the FIs can be made more attractive to their potential beneficiaries would include: substantially lower interest rates than offered in the commercial market; and the addressing of the problem the beneficiaries continue to have with providing own contribution. Future FIs should also consider admitting the possibility of waiving the repayment of not only loan interest, but also of some part of the loan principal. This option needs to be subject of further analysis during the Case Studies analysis to assess the level of support needed to fund the projects. Such a solution could be applied in the case of well implemented projects. Potential beneficiaries would also require technical assistance in the process of organising their financing, because they frequently lack the necessary know-how about FIs. The interlocutors indicate the specific forms of such assistance.

Representatives of the Marshal's Office expressed the opinion that, in their understanding, the limited control powers the MAs have over financial institutions (particularly over banks) can be considered a drawback of the scheme within which the JESSICA initiative is currently implemented. Moreover, banks tend to assess the projects seeking support from FIs in much the same way they evaluate the projects seeking commercial loan financing. In this context, future FIs could also consider the possibility of vesting the management of UDFs with specialised financial entities other than banks, which could play a more active role in providing technical support to the beneficiaries in risk assessment and management, financial analysis, etc. Based on the Marshal's Office's views, in order to support UDFs' effectiveness in managing the funds, it would be appropriate to provide them with more precise guidelines on the types of expenditures that can be incurred under the aforementioned technical assistance rubric. Closer cooperation and stronger communication mechanisms between the MAs and UDFs would also be desirable. The aforementioned suggestions are based on the experience of the Marshal's Office in implementing FIs under the JEREMIE initiative. In the opinion of the same, the new Programming Period schemes should provide for the possibility of combining the FIs with grants. The possibility should be applicable equally to all types of projects and beneficiaries, unless prevailing regulations provide otherwise (e.g. state aid regulations).

According to the respondents, partial allocation of the FIs towards central government programmes and projects would be highly justified. Taking into account the scope and impact of such central programmes, these should become the prime users of the FIs while the regional programmes should benefit from an increased share of subsidies and grants. This Study shows that the targeted use of FIs may and should be part of regional programmes as well.

### 2.1.2.3. Funding urban development

Competitive procedures for the EU funding resulted in the submission of 65 project applications, of which 29 were filed by territorial self-government units during the current 2007-2013 Programming Period. Total value of applications for ERDF support exceeded PLN 468 M. The list of individual projects included 9 that involved revitalisation. 34 projects were selected to become the beneficiaries of financial support provided by ERDF in a total amount of PLN 393,085,805. All of the key projects and 24 of the competitive list projects were implemented. 41 projects from the competitive list, which sought ERDF financial support totalling ca. PLN 262 M, were not successful.

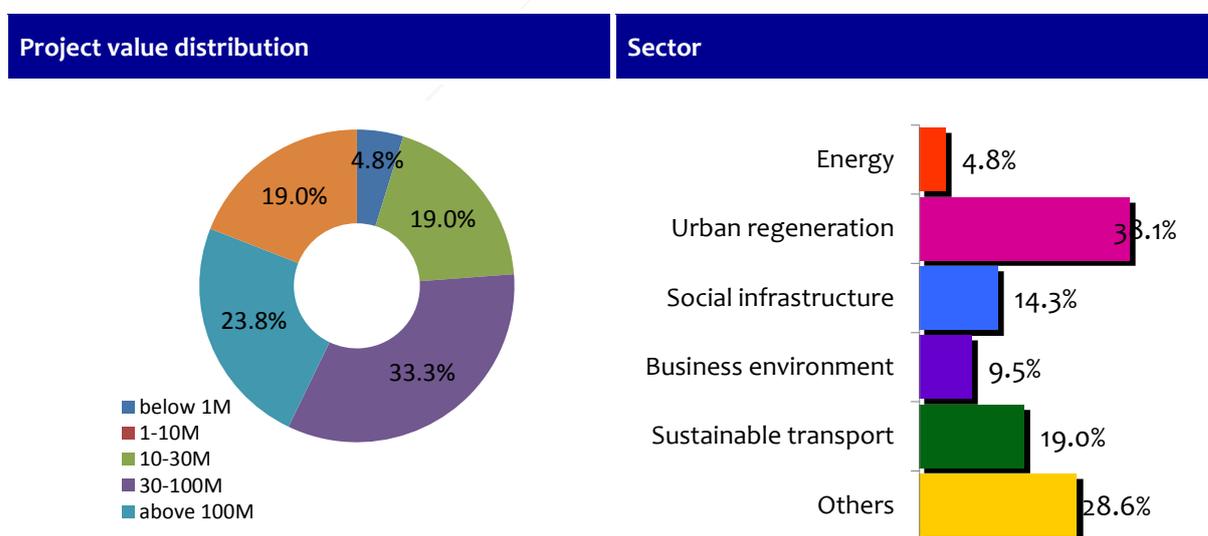
The Questionnaire results also provide a picture of some investments not going ahead due to unavailability of funding. Among the investors who notified their projects in response to the Questionnaire, two declared that they had previously made unsuccessful attempts at acquiring external financing: the Ozorków Municipality applied for a subsidy within the ROP for modernisation of the regional tramway line 46; while Kogeneracja Zachód S.A. (a CHP operator) applied for a loan with the PKO BP bank in the autumn of 2012.

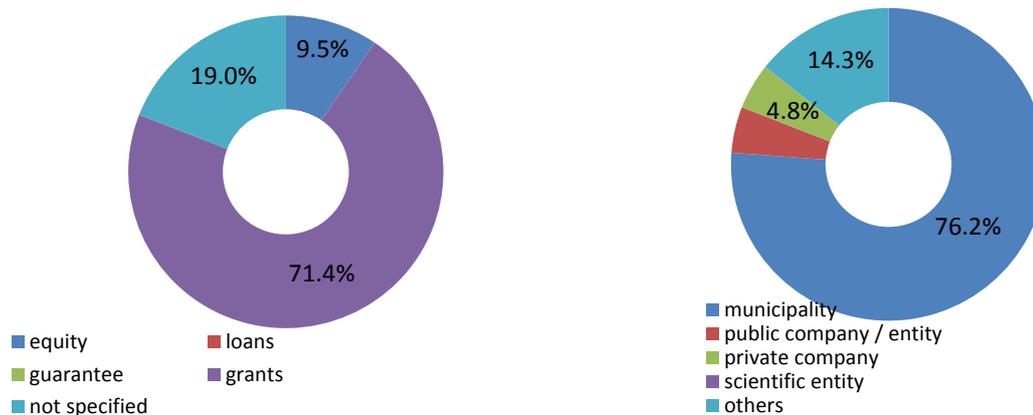
## 2.2. Identification of a potential pipeline and Case Studies

### 2.2.1. Identification of potential projects – Questionnaire

<b>Number of projects</b>	21
<b>Total value</b>	PLN 1,960 M
<b>Average project value</b>	PLN 115 M

In the Łódzkie Voivodeship, 21 projects amounting in total to PLN 1,960 M have been identified. Average project value here stands at PLN 115 M; the second highest among all the 9 Regions under consideration (after Wielkopolskie).





Source: Proprietary work, derived from the Questionnaire, The category “other” includes environmental and tourism investments.

### 2.2.2. Identified long list

The presentation of all projects identified in the Region can be found in Appendix III.

### 2.2.3. Presentation of an Interim list

The presentation of all projects in the Interim List can be found in Appendix IV.

### 2.2.4. Identification of two Case Studies

Project	Beneficiary	Sector	Value (PLN M)
Innovation: A Key to Success	Bełchatowsko Kleszczowski Park Przemysłowo-Technologiczny	Business environment	50-100
Revitalisation within the Inner City of Łódź	City of Łódź	Urban regeneration	650

### 2.2.5. Detailed analysis of two Case Studies

The presentation of two Case Studies analysed in the Region can be found in Appendix V.

### 3. RECOMMENDATIONS & CONCLUSIONS

Potential project demand for FIs in each of four subsectors have been defined for the Łódzkie as following:

**Figure 68: Potential demand for Financial Instruments for Łódzkie**

In PLN millions	Energy	Urban	Business Environment	Others	Total
JESSICA-type Equity	100-110 M	245-250 M	30-35 M	10-15 M	
JESSICA-type Loans	245-250 M	330-335 M	55-60 M	15-20 M	
JESSICA-type Guarantees	85-90 M	80-85 M	20-25 M	5 M	
<b>Estimated FI Size</b>	<b>345-360 M</b>	<b>575-580 M</b>	<b>95-100 M</b>	<b>30-35 M</b>	<b>910 M- 1.10 Bn (€220-255 M)</b>
<b>Estimated Co-Investments</b>					<b>1.85 – 2.0 Bn</b>
<b>Estimated Leverage Factor</b>					<b>~2.7</b>

There is high demand for urban regeneration in the Łódzkie Region especially in the city centre of Łódź. Under the ROP for 2007-2013, there is a priority axis focusing on revitalisation of urban areas (Priority VI) focus on post-industrial/post-military areas, regeneration of urban areas, and restoration of residential buildings in disadvantaged areas. Based on the Questionnaire and the market analysis as described in detail in Chapter 8 *General Definition of Financial Gap* of Part I of this Study, the focus of the ROP 2014-2020 for Łódzkie Voivodeship is likely to provide for support for physical, economic and social revitalisation of degraded urban areas.

Therefore, due to the limited experience with implementing FI by the MAs during the stakeholder consultation, it is suggested that a **Funds of Funds** be used in Łódzkie focusing on:

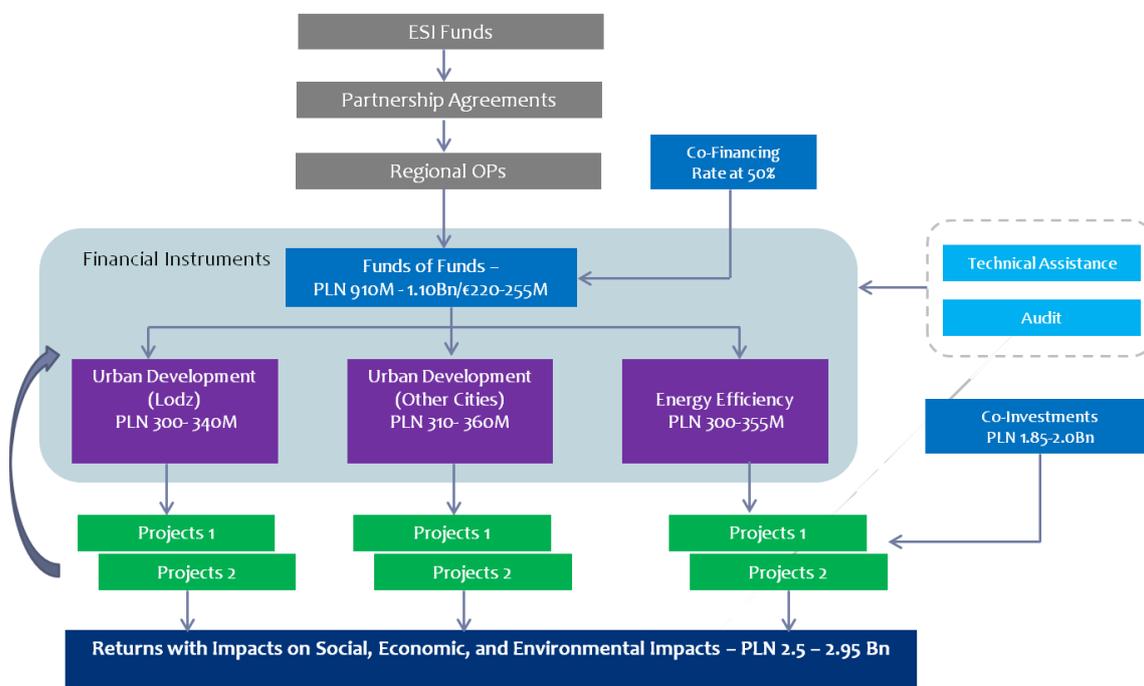
- **Urban Regeneration in Łódź (or Łódź Metropolitan Area)** providing loans and equity. The capital city itself submitted over €1.1 Bn in total project value, signifying the huge need for urban regeneration in the city centre on an unprecedented scale when compared with all other Regions participating in the Study. The need for urban regeneration identified by the municipality has been complemented by interest from potential private investors submitting their applications as part of the Questionnaire. The problem of regeneration of the city centre in Łódź to combat adverse social trends (including depopulation and uncontrolled city's growth) has been approached without much success during the Programming Period 2007-2013, with limited success. Therefore, additional technical assistance on the level UDF should be demonstrated to design a fit-for-purpose solution that accommodates the problems signalled by potential beneficiaries.
- **Urban Regeneration in small and medium sized municipalities** which would also provide loans and equity for a variety of urban regeneration projects aligned with regional priorities and the respective LRPs.
- **Energy Efficiency** – Due to the high number of energy projects submitted it is recommended that a third UDF be set-up providing through development equity and loans for a variety of energy-related projects (esp. district heating, street lighting and renewable energy, including biomass, biogas and waste-to-energy). Refurbishment and/or expansion of municipal district heating infrastructure for the purpose of eliminating low emission sources (as in the case of Łęczyca district heating project) form a viable project pipeline. We have estimated the market needs in this area for Łódzkie at over EUR 150 M and believe that these projects present revenue generating investments with healthy economic rationale to be supported by FIs.

The urban regeneration in case of UDF 1 and UDF 2 should be defined in a broad sense, i.e. not only limited to redevelopment of real estate but to promote pro-growth functions of the cities' areas. Therefore, some funds might be ring-fenced for pro-growth investments, including creating or development of SMEs,

projects promoting Region's smart specialisation, including innovative technologies, as for example nanotechnologies, mechatronics and creative industries (film industry, fashion and design industry).

A suggested FI size of PLN 910 M - 1.1Bn/€220- 255 M is recommended for Łódzkie Region.

**Figure 69: Indicative Organisational Scheme for Łódzkie**



FIs need to be operational ideally by late 2014 or beginning of 2015 in order to capitalise on the benefits of FIs over the longest period. This allows for sufficient time to develop the investment strategy and scope to be undertaken after the Partnership Agreement and ROPs are finalised in the first half of 2014 (timescales to be confirmed by the Commission). MAs are encouraged to conduct an ex-ante assessment as soon as possible and start with the tender process to procure a Fund of Funds Manager.

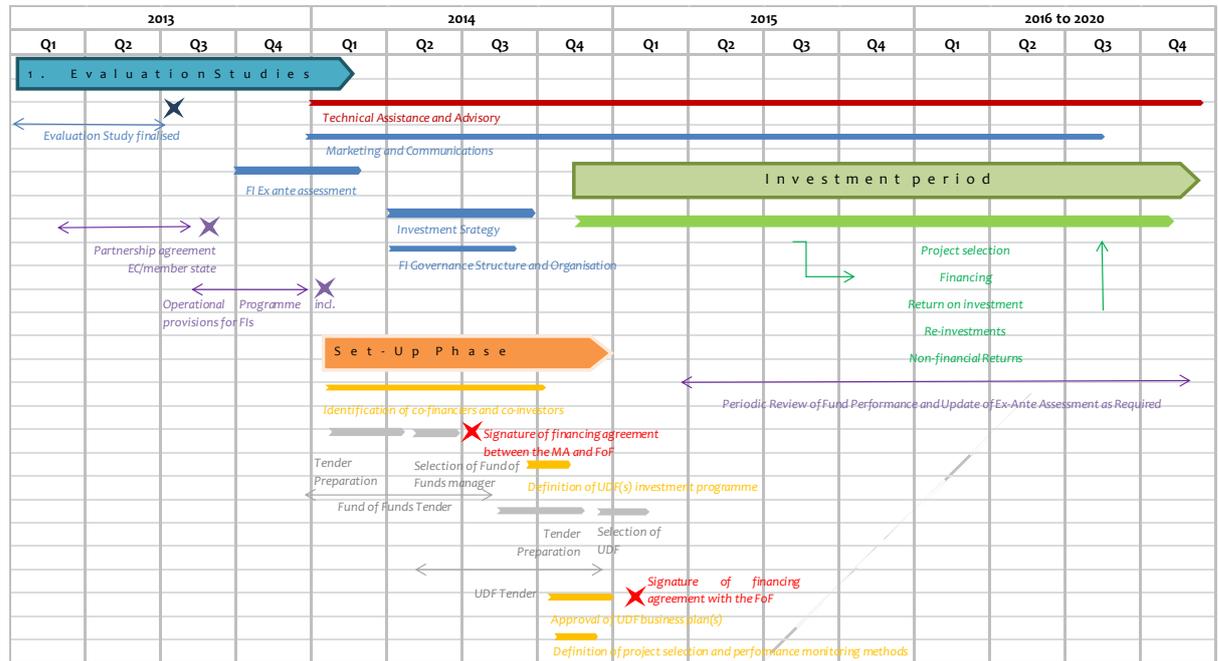
The Article 38 CPR enables MAs to entrust implementation of FIs to:

- directly to the EIB;
- international financial institution in which a Member State is a shareholder, or financial institutions established in a Member State aiming at the achievement of public interest under the control of a public authority; or
- a body governed by public or private law.

The MA may also implement FIs directly, but in this case FIs are limited to loans and guarantees.

Should the Łódzkie wish to appoint the EIB as the Holding Fund Manager, then this can be done as a direct award without going through the formal procurement process, which can take up to 6 months. Alternatively, subject to national procurement laws, Łódzkie can also select another financial institution as the Fund of Funds Manager.

Figure 70: Indicative Implementation Timescale for Łódzkie



### 1. REGIONAL POLICY CONTEXT

#### 1.1. Analysis of the general conditions in Lubelskie Region



Area (ths km <sup>2</sup> )	<b>25,122</b>
Population (ths 2012)	<b>2,166</b>
Urbanisation ratio*	<b>46.6 %</b>
Unemployment rate (2012)	<b>12.9 %</b>
Relative average salary** (2011)	<b>89,8</b>

**Source:** The Central Statistical Office

\* urban population as percentage of total population

\*\*average monthly gross salary to the national average (Poland = 100)

#### 1.1.1. General Presentation and Experience to Date

##### Key features and challenges of Region's city areas

Lubelskie is predominantly a rural Region bordering Ukraine with over 47% of the population living in rural areas compared to the national average of 45%. It suffers from structural issues related to regional economic structure dominated by the agricultural industry. The largest city is Lublin (355 ths inhabitants), followed by Chełm (68 ths) and Zamość (67 ths). Although the structure of the settlement system can appear relatively monocentric dominated by Lublin's size, in relative terms the city, Lublin is home to only 16% of the Region's population.

The key challenges and issues of concern in the Region in relation to urban policy include:

- Rapid depreciation of most of the housing stock,
- Poor state of public space and technical infrastructure,
- Inadequacy of communication systems to deal with the increasing volume of traffic,
- which are usually regarded as having high development potential due to their strategic location close to transport routes,
- Lack of preservation of the historic buildings and architecture<sup>20</sup>.

##### Experience in using Financial Instruments

Lubelskie Voivodeship has not had experience in financing the urban development from FIs. All urban regeneration related projects were financed with grants. Total amounts disbursed over 2007-2013 is PLN 1.3 billion where PLN 0.8 billion were granted by the EU. Within the Regional Operational Programme of Lubelskie Voivodeship for 2007-2013 under Priority Axis III (Attractiveness of Urban Areas and Investment Areas) approximately 6% of the Community resources from the ERDF (€73.35 M) will be allocated.

Sample projects regarding urban space that obtained the largest financial support within the ROP:

<sup>20</sup> Development Programme of the Reviving of Cities in Lubelskie Voivodeship, p. 36

- Redevelopment of Saxon Gardens in Lublin (value of financial support: PLN 10 M),
- Regeneration of Opole Lubelskie town centre – Stage I (value of financial support: PLN 10 M),
- Regeneration Dęblin town centre together with the Palace and Park Complex of the Polish Air Force Academy (value of financial support: PLN 10 M).

### **1.1.2. Description of the Lubelskie Region and the key priorities for the Region's development - regional / local strategies and investment needs**

#### **Urban areas in the Region**

Lublin (355 ths population) is the largest city of the Region. Other cities of economic importance include: Zamość, Chełm, Biała Podlaska and Puławy. These four cities have an auxiliary role for economic, social and cultural development of the Region. The declining economy of the Region has had negative consequences on local residents and the wider community.

#### **Key strategic documents in the context of urban development**

The Lubelskie Voivodeship Development Strategy for 2006–2020 has the objective of achieving sustainable socio-economic development by increasing the competitiveness of the Region and capitalising the internal economic development potential. There are four priorities, one of which is related to aspects of regeneration: *Priority 3: Improving the attractiveness and territorial cohesion of the Lubelskie Voivodeship*. It includes two operational objectives related to aspects of regeneration or urban development:

- Objective 3.2 Maintenance and enhancement of the natural, landscape and cultural diversity of the Lubelskie Region
- Objective 3.3 The development of urban centres and the metropolitan functions of Lublin

According to the Lubelskie Voivodeship Development Strategy, the Priority 3 should focus on strengthening the position and status of the Region's urban centres, including the regeneration of town centres and degraded areas. It should include following actions:

- Regeneration of the historic urban fabrics and peripheral residential areas, and the development and regeneration of post-industrial and post-military sites,
- Improving the functionality of the transport system,
- Supporting local public-private partnerships initiatives in the development and implementation of regeneration plans,
- The implementation of the above activities using energy-efficient technologies and solutions,
- Supporting the development of cultural and tourism bases, services and functions of border towns.<sup>21</sup>

### **1.1.3. Experience in programmes / initiatives focusing on urban development, implemented in the Region**

The key experience of the Region in implementation of programmes focusing on urban development has been the implementation of the Regional Operational Programme 2007-2013 Priority Axis III: – The attractiveness of urban areas and investment areas. The objective of this priority is to increase the investment attractiveness of the Region by supporting the urban regeneration. As part of the priority, two measures are carried out: Measure 3.1. Creating investment areas and Measure 3.2. Regeneration of degraded urban areas.

<sup>21</sup>Lubelskie Voivodeship Development Strategy 2006–2020.

The objective of Measure 3.1. is to improve the investment attractiveness of the Region and, consequently, increase the inflow of domestic and foreign investment capital through projects such as: construction and upgrading of roads, rail infrastructure and water/sewage/gas/electricity infrastructure, building telecommunication networks, development of the environment, modernisation and adaptation of buildings for business purposes, modernisation or reconstruction of public infrastructure for business functions.

The objective of Measure 3.2. is to restore degraded urban, post-industrial and post-military areas for business, tourism, social and cultural functions, as well as increase the investment attractiveness of the Region and improve the living conditions of inhabitants. As part of this measure, projects are carried out related to organising the historic urban fabric, associated with granting a given area economic, educational, tourism, cultural and social functions. Projects related to the regeneration, rehabilitation and extension of buildings aiming at organising and renewing public spaces may also apply for financial support under Measure 3.2. In addition, Measure 3.2. allows for the implementation of interventions in the form of construction, modernisation and restoration of technical infrastructure, and the restoration of monuments, post-industrial equipment, facilities providing services in the field of social welfare, as well as post-military areas. Lastly, Measure 3.2. also includes projects to support areas at risk of social pathologies through infrastructure works, or the introduction of equipment allowing increased safety (e.g. extending lighting, the purchase and installation of monitoring systems).

These urban development projects must be complementary to the Development Programme of the Revitalization of Cities in Lubelskie Voivodeship and implemented under the regulations of Local Revitalization Programme. The investments concerning the use of renewable energy can be also included into the comprehensive measures for the regeneration of the urban areas.

#### Figure 71: Examples of experience in the implementation of urban development projects

The regeneration project of the Old Town in Lublin was implemented by the City of Lublin, co-financed by the Lubelskie Voivodeship Regional Operational Programme 2007–2013. The project focused on renovation of historic buildings for residential and retail purposes along ul. Kowalski 2, ul. Noworybna 3, ul. Jezuicka 14, ul. Grodzka 406, ul. Olejna 5 and 14, ul. Jezuicka 4 and 6, as well as the *Izba Drukarska* building at ul. Królewska 17.

In addition, a monitoring camera and hot-spot point were installed. The regeneration of the Old Town also included: improving the technical condition, standard and aesthetics of the Old Town buildings and the spaces around them. Ultimately, this will lead to an increase in the standard of living of residents; as well as enhanced Lublin's overall attractiveness to tourist and foreign investors. Thanks to the renewal of the historic part of the city, the image of the city has been improved. Lublin is now known as one that takes care of its historic urban and architectural fabric.

The total value of the project was PLN 2.4 M, including co-financing of around PLN 700,000.

Source: Lubelskie Voivodeship Regional Operational Programme 2007–2013.

#### 1.1.4. Description of the draft assumptions to new ROPs

##### Regional Operational Programme 2014-2020

The objectives for the Lubelskie Regional Operational Programme for 2014–2020 have not yet been decided. However, The Board of Lubelskie Voivodeship accepted the document “Preliminary outline of support areas in The Regional Operational Programme 2014-2020” (*Wstępny zarys obszarów wsparcia w ramach RPO 2014-2020*) indicating preliminary investment priorities and support areas that will be included in the Regional Operational Programme for Lubelskie Voivodeship 2014-2020<sup>22</sup>:

- I. Business competitiveness and innovation,
- II. Environmentally friendly energy,

<sup>22</sup> <http://www.rpo.lubelskie.pl/>

- III. Environmental protection and efficient use of resources,
- IV. Regional mobility and sustainable transport,
- V. Entrepreneurship and learning throughout life,
- VI. Social cohesion,
- VII. Education, skills and competences,
- VIII. Social Infrastructure,
- IX. Support – EFS,
- X. Support - EFRR.

The current draft of ROP was adopted by the Board on 28<sup>th</sup> of May 2013. Allocations by priority axis were presented in this document. The allocation of funds assumes the following breakdown: PLN 1,832 M for the ERDF and ESF, of which PLN 470 M for the ESF.

### **Lubelskie Voivodeship Development Strategy**

The Lubelskie Voivodeship Development Strategy was adopted in 2005 and covers the period up to 2020. The document “Lubelskie Voivodeship Development Strategy with the Perspective until 2030” was accepted on June 24<sup>th</sup> 2013. Its main objectives in urban regeneration and development of the Lubelskie Region include:

- Support to the regional urbanization – development of Lublin’s regional functions, support to the regional functions of cities, improvement of the communication between Lublin and other metropolitan areas in Poland and abroad;
- Selective increase in knowledge, skills, technological development, entrepreneurship and the regional innovativeness.

### **Local Regeneration Plan**

The updated Lublin Regeneration Plan that is based on the 2005 plan was approved in 2009. The majority of the activities envisaged in the plan were scheduled for 2012 at the latest. According to the information given by the City of Lublin, the majority of projects have not been implemented due to unresolved problems with property ownership in the area of Old Town and Downtown. Key investments planned for 2013-2020 are:

- Podzamcze and Czwartek hill, including Lubartowska street regeneration;
- ‘Przydworze’ – area of the railway station.

### **Figure 72: Examples of experience in the implementation of regeneration projects**

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#### **Renovation of the monastery and its conversion into an art centre in Lublin**

The project is part of the Local Regeneration Plan for Lublin for the Śródmieście district and is being carried out by the local authorities. The total value of the project is PLN 38.4 M. Funds for the project were obtained from the ERDF and from the Promesa Program of the Minister of Culture and National Heritage. The subject of the project is the renovation of the historic former monastery building along with the re-composition of the former monastery garden and entrance area together with the historic chapel.

The scope of the renovation work under the project stems directly from the conservation guidelines, and the objective is to restore the historical spatial values of the complex, ensuring the sustainability of the technical structure, equipping it with systems and installations necessary for its full adaptation to the needs of cultural institutions, which, as a result of the project, will be its users. Upon completion of the project, the original proportions of the church building will be restored. Rooms in the refurbished building will be made available to three municipal cultural institutions: the Cultural Centre, the Public Library and the Art Exhibitions Bureau, which all plan to expand their range of services and mobilise artistic, cultural and educational activities. Completion of the project is scheduled for July 2013.

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Source: [www.um.lublin.pl](http://www.um.lublin.pl)

### 1.1.5. Smart Specialisation Strategy

As of end of August 2013, the Assumptions for an update of the Regional Innovation Strategy for Lubelskie Voivodeship until 2020 have been developed. They include the criteria for selecting research, development and innovation priorities (smart specialisations). The issue of smart specialisations is being consulted and is a subject of a public debate. The following areas of smart specialisations are considered:

- key specialisation – bio-economy (food, feed, bio-products, and bioenergy produced from renewable sources) covers the agriculture and food sector, and the connected ones – forestry, chemical industry, biotechnology and energy
- supporting specialisation medical and healthcare services,
- emerging specialisation low-emission energy,
- emerging specialisation ICT and control engineering.

## 2. FINANCIAL INSTRUMENTS & CASE STUDY ANALYSIS

### 2.1 Initial identification of supply and demand side, including previous market failures

#### 2.1.1. Supply side

##### 2.1.1.1. Description of the FIs currently available in the Region

In 2012, three loan funds, three guarantee funds, one seed capital fund and one business angel network were operating in the Lubelskie Voivodeship.<sup>23</sup>

Figure 73: Key players in the regional FI market

<b>3</b>	<b>Loan funds</b>	<b>Guarantee funds</b>	<b>3</b>
	<ul style="list-style-type: none"> <li>• Loan Fund at the Biłgorajska Agencja Rozwoju Regionalnego S.A.</li> <li>• Loan Fund at the Lubelskie Development Foundation</li> <li>• Loan Fund at the Lublin Development Foundation</li> </ul>	<ul style="list-style-type: none"> <li>• Guarantee Fund</li> <li>• Polish Guarantee Fund</li> <li>• Puławski Credit Guarantee Fund</li> </ul>	
<b>1</b>	<b>Seed capital funds</b>	<b>Business angel networks</b>	<b>1</b>
	<ul style="list-style-type: none"> <li>• Let's Invest in Innovation – Technology Incubator</li> </ul>	<ul style="list-style-type: none"> <li>• Eastern Business Angel Network</li> </ul>	

Source: *Business and Innovation Centres in Poland 2012 – final report*, Association of Business and Innovation Centre Organisers in Poland, Warsaw 2012.

##### 2.1.1.2. Guarantees

Regional guarantee funds with their combined amount of guarantee capital available (PLN 107.1 M) placed the Region in this respect in 3rd position in Poland in 2010 (behind the Kujawsko-Pomorskie Voivodeship – PLN 115.7 M and the Zachodniopomorskie Voivodeship – PLN 114.3 M). There has been a significant dynamic in the guarantees market since 2010, mainly due to the implementation of the JEREMIE initiative in several voivodeships in Poland. The funds available through the regional guarantee funds have not been fully distributed yet; 66% of the funds have not been distributed to the beneficiaries.<sup>24</sup>

#### The Polish Guarantee Fund

The fund with the largest capital in the Region is the Polish Guarantee Fund. It was established in 1995 as part of the Polish-British Enterprise Development Programme owned by the Lublin Development Agency. The fund offers three types of guarantees: commercial, preferential (for entities located in the Lubelskie Voivodeship) and for innovation (for businesses operating in high-risk areas); all three are provided on different conditions. For all three products, the guarantee amount may be from PLN 15,000 to PLN 1.5 M; differences in the offer are linked to the target groups, permitted participation of a guarantee in a loan and the period of providing the guarantee.

<sup>23</sup> *Business and Innovation Centres in Poland 2012 – final report*, Association of Business and Innovation Centre Organisers in Poland, Warsaw 2012.

<sup>24</sup> *Raport o stanie funduszy poręczeniowych w Polsce - stan na dzień 31 grudnia 2011 r.*, (Raport on guarantee finds in Poland as of 31.12.2011), Krajowe Stowarzyszenie Funduszy Poręczeniowych, Warszawa 2012.

### 2.1.1.3. Loans

In 2010, Lubelskie loan funds granted loans for a total amount of PLN 15.5 M.<sup>25</sup> In the same year, the amount of active loans was not much higher at PLN 18.9 M. The funds specialise in providing loans for projects supporting the development of private business, and local labour market activation. Support is mainly provided to micro, small and medium-sized enterprises.

### 2.1.1.4. Equity

The only seed capital fund in the voivodeship, “Let’s Invest in Innovation – Technology Incubator”, supports the establishment of enterprises energy, IT, and life science research carried out in R&D institutions. The investment profile of the Eastern Business Angel Network is more diverse. Investors in the network support projects from the following industries: IT, internet, biotechnology, medicine, electronics, optics, engineering, and other projects with high business potential.

## 2.1.2. Demand side

### 2.1.2.1. Prevailing urban development project typologies that could be eligible for JESSICA financing

In terms of the four key thematic areas of investment provided with the support of the JESSICA programme, most projects in the Lubelskie Voivodeship were in the category of urban regeneration (8) and energy (5). In other areas: four sustainable transport and social infrastructure projects, and two projects in business support institutions. Local self-government units (22) and private enterprises (3) dominated in the structure of potential beneficiaries of the programme.

Figure 74: Number of projects by sectors and sub-sectors

<b>8</b>	<b>Regeneration of urban areas.</b>	<b>Energy</b>	<b>5</b>
3	Post-industrial and post-military regeneration areas	Energy efficiency	2
		Waste management	0
		Photovoltaics	4
2	Comprehensive modernisation of dilapidated buildings	Other renewable sources	4
		Heating	2
4	Other	Other	0
<b>4</b>	<b>Social infrastructure</b>	<b>Business environment</b>	<b>2</b>
1	Schools/nurseries	R&D/innovation	1
0	Hospitals/long-term care	SMEs	1
2	Social and municipal housing	Business incubators/technology parks	2
3	Public buildings		
0	Other	Other	0
<b>4</b>	<b>Sustainable transport</b>	<b>Other</b>	<b>10</b>

Source: Proprietary work, derived from the Questionnaire

Note: some projects have been classified into more than one category, and hence the sum of projects after counting all categories exceeds the total number of submitted projects.

<sup>25</sup>Diagnosis of the loan funds sector in Poland as on 31.12.2010 – final report, A. Alińska, Warsaw 2011.

### 2.1.2.2. Appetite of final recipients (including municipalities) for the use of FIs in urban development

In the Questionnaire, the preferred form of investment support indicated by potential beneficiaries was non-refundable financing regardless of the thematic areas. Only in the case of 4 out of 22 projects in which a debt instrument was to be used. Two of these related to the regeneration of urban areas (including: the renewal of the historic town centre of Opole Lubelskie and the building of an Aquatics Centre in Chełm), the other two were in the ‘other’ category (including: the building of Chełm Gallery in Chełm and a sewage treatment plant in Bychawa).

Figure 75: Sectors’ demand for specific Financial Instruments

Sector	Equity Instruments	Loan	Guarantee	Grant	No response	Total
Urban regeneration	0	2	0	4	2	8
Energy	0	0	0	4	1	5
Social Infrastructure	1	0	0	3	0	4
Business environment	0	0	0	2	0	2
Sustainable transport	0	0	0	2	2	4
Other	0	2	0	7	1	10

Source: Proprietary work, derived from the Questionnaire

Note: some projects have been classified into more than one category, and hence the sum of projects after counting all categories exceeds the total number of submitted projects.

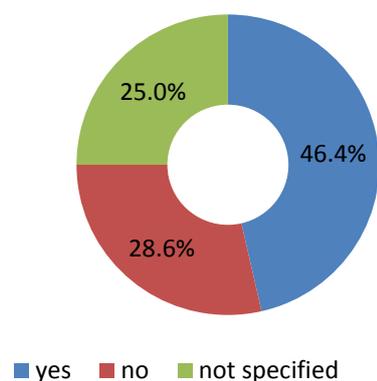
Figure 76: Beneficiaries’ demand for specific Financial Instruments

Type of beneficiary	Capital instruments	Loan	Guarantee	Grants	No response	Total
Local self-government units	1	3	0	15	3	22
Private companies	0	1	0	2	0	3
Research institutions	0	0	0	2	0	2
Other	0	0	0	0	1	1
<b>TOTAL</b>	<b>1</b>	<b>4</b>	<b>0</b>	<b>19</b>	<b>4</b>	<b>28</b>

Source: Proprietary work, derived from the Questionnaire

The majority of respondents (46.4%) declare a willingness to use FIs in the event that there is no support available in the form of subsidies in the 2014-20 Programming Period. Only a quarter of respondents explicitly ruled out the possibility of using this type of support (25%).

**Figure 77: Interest in FIs if they were the only form of financing for projects available in the 2014-2020 Programming Period**



Source: Proprietary work, derived from the Questionnaire

Representatives of the Marshal's Office pointed out that rising government debt and the poor economic situation are factors that are currently discouraging potential beneficiaries from using repayable funding. According to the Marshal's Office, local self-government units would have difficulty in the implementation of projects using FIs due to budgetary constraints imposed by the Ministry of Finance (debt level control).

### 2.1.2.3. Funding urban development

In the competition for Measure 3.2 ROP – Regeneration of degraded urban areas, 84 applications were submitted for funding totalling almost PLN 416 M. Thirty agreements for co-financing were signed under this Measure, totalling more than PLN 162 M, of which two agreements for nearly PLN 21 M were for key projects. This means that 56 applications for funding of competitive projects were rejected totalling approximately PLN 215 M.

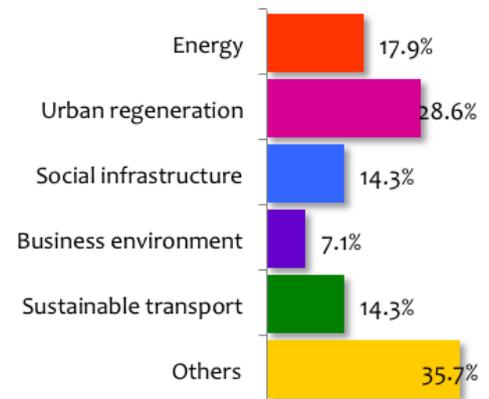
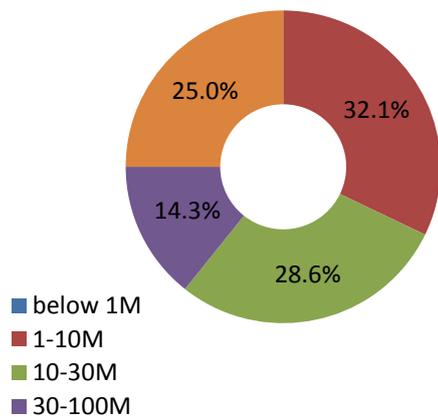
## 2.2. Identification of potential pipeline and Case Studies

### 2.2.1. Identification of potential projects

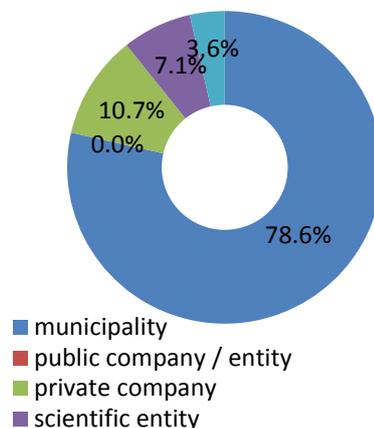
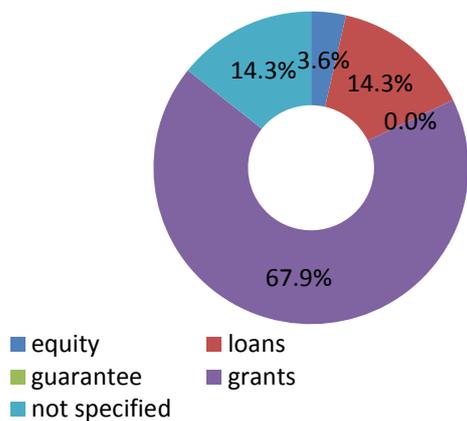
<b>Number of projects</b>	28
<b>Total value</b>	PLN 486.9 M
<b>Average value</b>	PLN 23.2 M

In the Lubelskie Voivodeship, 28 projects were identified for a total of PLN 486.9 M. As far as the total value of the projects, this is one of the lowest scores recorded in all the nine voivodeships analysed. A lower total value of investments was identified only in the case of Świętokrzyskie (PLN 319.0 M) and Western Pomerania (319.0 M). The average value of investments reported in the Lubelskie Voivodeship amounted to PLN 23.2 M. The budget of the majority of them would be placed in the PLN 1 to 10 M range (32.1%).

**Distribution of the value of projects** | **Sector**



**Demand for Financial Instruments** | **Type of beneficiaries**



Source: Proprietary work, derived from the Questionnaire

Most investments reported in the Questionnaire were related to the topic of regeneration of urban areas (28.6%) followed by energy efficiency projects (17.9%), and in further positions: sustainable transport and social infrastructure (both sectors at 14.3%) and business support institutions (7.1%). In the ‘other’ category, indicated by 35.7% of respondents, investments in the following areas were reported: municipal infrastructure (sewage management, water management), housing, tourism and recreation.

As with other Regions, the majority of respondents prefer to receive non-refundable financing (67.9%). A relatively large proportion of respondents in relation to other Regions, which currently are not taking advantage of the JESSICA initiative, pointed to a desire to obtain a loan (14.3%).

**2.2.2. Identified Long List**

The presentation of all projects in identified in the Region can be found in Appendix III.

**2.2.3. Presentation of an Interim List**

The presentation of all projects in the Interim List can be found in Appendix IV.

#### 2.2.4. Identification of two Case Studies

Project	Beneficiary	Sector	Value (PLN M)
New energy for Kraśnik	City of Kraśnik	Energy – energy efficiency, photovoltaic	20
Retail Park Lokomotywownia	Private developer	Urban regeneration	66

#### 2.2.5. Detailed analysis of two Case Studies

The presentation of two Case Studies analysed in the Region can be found in Appendix V.

### 3. RECOMMENDATIONS & CONCLUSIONS

Potential project demand for FIs in each of four subsectors have been defined for the Lubelskie as following:

Figure 78: Potential demand for FIs for Lubelskie

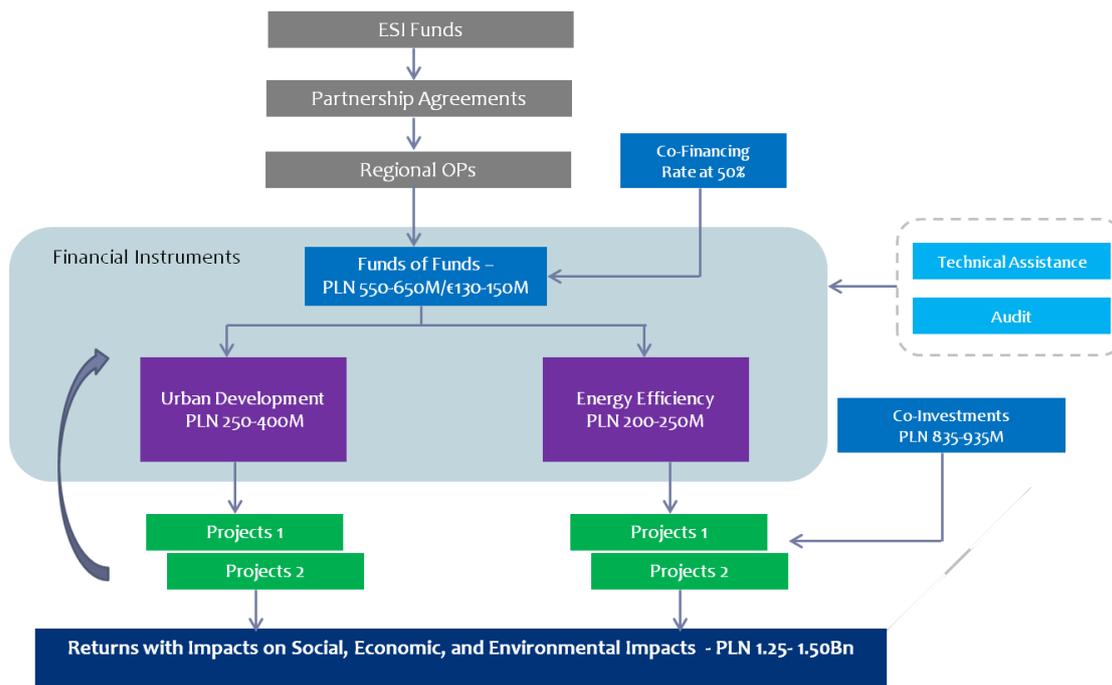
In PLN millions	Energy	Urban	Business Environment	Others	Total
JESSICA-type Equity	55-60 M	100-110 M	10-15 M	20-25 M	
JESSICA-type Loans	130-135 M	140-145 M	25-30 M	25-30 M	
JESSICA-type Guarantees	45-50 M	30-35 M	5-10 M	5 M	
<b>Estimated FI Size</b>	<b>235-240 M</b>	<b>280-290 M</b>	<b>55-60 M</b>	<b>55-60 M</b>	<b>550-650 M (€130-150 M)</b>
<b>Estimated Co-Investments</b>					<b>835-935 M</b>
<b>Estimated Leverage Factor</b>					<b>2.3</b>

There is strong emphasis on the need for regeneration and revitalisation in urban areas based on the ROP 2007-2013 and Lubelskie Voivodeship Development Strategy 2006-2020 as a way to promote economic development in the Region. As one of the least developed Regions in Poland, there is a push to improve urban infrastructure and developing urban centres for attracting investments to Lubelskie. As part of the overall strategy, investments are encouraged for renewable energy projects.

Based on the Questionnaire and the market analysis as described in detail in Chapter 8 *General Definition of Financial Gap* of Part I of this Study, there is strong demand for both urban development and energy-related projects (district heating, energy efficiency in buildings). It is suggested that the size of the FI be approximately PLN 550-650 M/€130- 150 M to support both sectors. Through a **Fund of Funds structure**, two areas of intervention should be in particular taken into account and potentially two UDFs could be established:

- **Urban Development** which offers loans and equity financing for medium-to-large scale urban projects aligned with LRP. There is no reason for geographical restrictions except possible ring-fencing of some funds (assumed 30%) for smaller and medium sized municipalities to avoid investments strictly in larger cities. Based on a significant number of projects being submitted in the Region as part of the Questionnaire by medium and small-size municipalities, there appears to be sufficient demand from this group of potential beneficiaries of FIs.
- **Energy Efficiency** through loans for projects such as energy-efficiency of buildings or residential blocks which would support regional strategy of improving the environment by reducing energy consumption in buildings. There is strong scope for developing a robust renewable energy sector such as biomass and small-scale waste.

Figure 79: Indicative Organisational Scheme for Lubelskie



FIs need to be operational ideally by late 2014 or beginning of 2015 in order to capitalise on the benefits of FIs over the longest period. This allows for sufficient time to develop the investment strategy and scope to be undertaken after the Partnership Agreement and ROPs are finalised in the first half of 2014 (timescales to be confirmed by the Commission). MAs are encouraged to conduct an ex-ante assessment as soon as possible and start with the tender process to procure a Fund of Funds Manager.

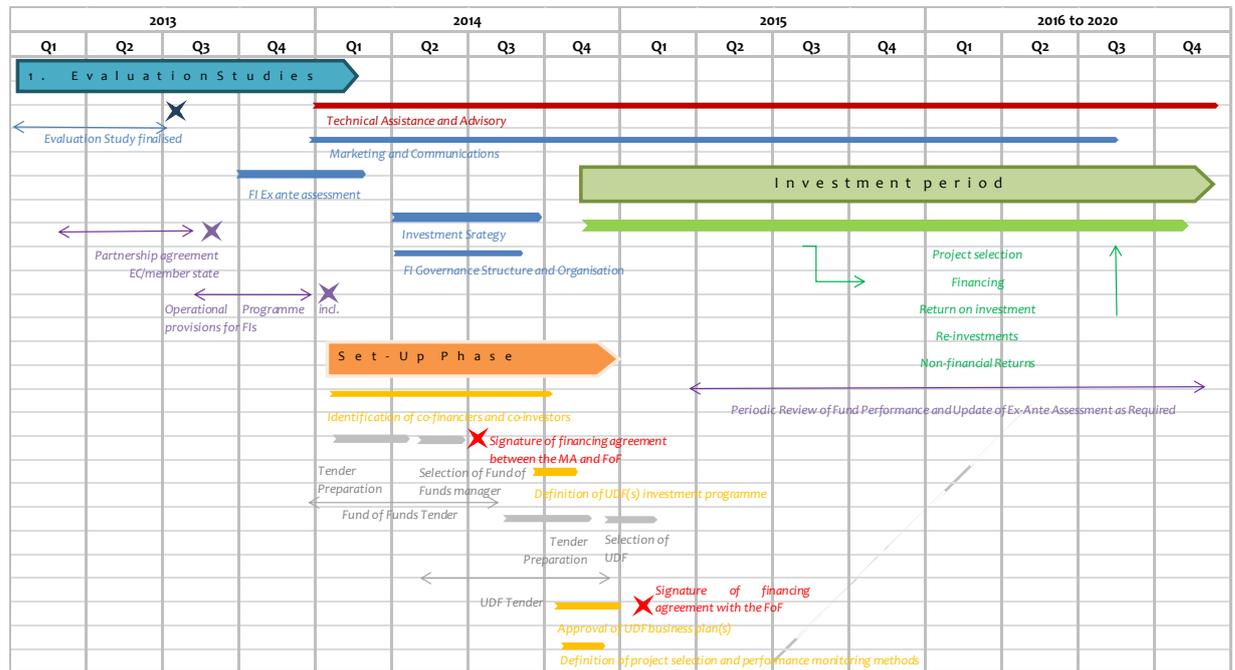
The Article 38 CPR enables MAs to entrust implementation of FIs to:

- directly to the EIB;
- international financial institution in which a Member State is a shareholder, or financial institutions established in a Member State aiming at the achievement of public interest under the control of a public authority; or
- a body governed by public or private law.

The MA may also implement FIs directly, but in this case FIs are limited to loans and guarantees.

Should the Lubelskie wish to appoint the EIB as the Fund of Funds Manager, then this can be done as a direct award without going through the formal procurement process, which can take up to 6 months. Alternatively, subject to national procurement laws, Lubelskie can also select another financial institution as the Fund of Funds Manager.

Figure 80: Indicative Implementation Timescale for Lubelskie



### 1. REGIONAL POLICY CONTEXT

#### 1.1. Analysis of the general conditions for urban development in Małopolskie Region



Area (ths km <sup>2</sup> )	15,182
Population (ths 2010)	3,298
Urbanisation ratio*	49.4 %
Unemployment rate (2012)	10.5%
Relative average salary** (2011)	91,9

Source: The Central Statistical Office

\* urban population as percentage of total population

\*\*average monthly gross salary to the national average (Poland = 100)

#### 1.1.1. General Presentation and Experience to Date

##### Key features and challenges of Region's city areas

There are 61 towns in the Małopolskie Voivodeship, and small towns dominate the spatial pattern of the Region. Urbanization ratio in Małopolskie is relatively low at below 50% compared to other Polish Regions. The Region is focused around the city of Krakow, the 2nd largest (population of 756.2 ths), and one of the oldest cities in Poland. Krakow is a leading cultural, financial and industrial centres as well as the economic hub of the Małopolskie Region, in addition to being at a major academic centre of Poland. Other relatively large cities are Tarnów, Nowy Targ, Nowy Sącz and Oświęcim. The main development challenges in Małopolskie are:

- the development of the role of Kraków as an important knowledge and innovation hub for research and development in Europe through creating conditions for cooperation between research universities and business;
- economic and social development of the metropolitan area and strengthening the potential of the Kraków Metropolitan Area through improvements in infrastructure (major roads, public transportation, and accessibility), whilst also focusing on culture, convention and exhibition space and health;
- the creation and development of a Kraków-Upper Silesia macro-regional cooperation area through: intensification of cooperation in knowledge-based industries, including the development of a knowledge and innovation hub, setting the direction of the macro-regional development of the labour market, preparing a joint investment prospectus and its external promotion, creation of a shared leisure strategy based on diverse and complementary products in culture and tourism including: cultural, religious, active, specialist, recreational and business tourism.

The Kraków Metropolitan Area (KMA) stands out among others in the Region by the level and growth of urbanisation, a high degree of linkage with the Kraków labour market, and certain shared solutions in the network elements of technical infrastructure. The border of the metropolitan area maps out the spatial range of the interaction between labour and housing markets. The KMA is characterised by particularly high potential in terms of innovation, tourism and labour market. One of the barriers to its development is the under-developed transport infrastructure.

## **Experience in using Financial Instruments**

Małopolskie Voivodeship does not have experience in using FIs to support urban development, as JESSICA instrument has not been used so far. Małopolskie has some experience with revolving instruments dedicated to SMEs, which is reflected in the developed network of loan funds, guarantee funds and seed capital funds, even though it decided not to implement the JEREMIE initiative. The funds available from financial institutions do not address the capital needs associated with urban development projects – both subjectively, as their support is intended mainly for SMEs, and in value terms, as for example the maximum amount of credit offered by loan funds is PLN 400,000 (Małopolska Loan Fund).

### **1.1.2. Description of the Małopolskie Region and the key priorities for the Region's development**

#### **Urban areas in the Region**

The demographic trends in Małopolskie are changing rapidly. Smaller post-industrial towns have experienced negative population growth as the result of an aging population and an outward migration of skilled labour to major Polish cities. Rural areas in the Małopolskie Region in recent years have undergone rapid economic, social and spatial changes that have been stimulated by investment. The development of small and medium-sized towns in the Małopolskie Region is a prerequisite for the sustainable spatial development of the Voivodeship and an improvement in intra-regional cohesion.

The Kraków Metropolitan Area (KMA) plays a major role in the Region's development. The metropolitan area is divided into two parts: the metropolitan centre, i.e. Kraków, and the outer zone divided into the suburban zone (11 urban communes) and the commuter zone (29 urban communes). The suburban zone is part of the outer zone surrounding the metropolitan area and it lies directly adjacent to Kraków.

In the future, the development of KMA is planned to be supported by a close cooperation with the Upper Silesian Metropolitan Area (USMA). The document which defines the basis of cooperation between Silesia and Małopolskie Voivodeship and identifies relevant trends and types of projects is the "Strategy for the Southern Poland Development" accepted on the 5th of April 2013 by self-governments of respective regions<sup>26</sup>.

#### **Key strategic documents in the context of urban development**

The main challenges and problems of urban development in the Region result from the differing development potentials of these towns. Therefore, the RDS for the Małopolskie Voivodeship in 2011–2020 emphasises the need for cooperation at various levels in the Region. The strategy envisages further support for the KMA and focuses intervention on sub-regional areas, one of which will be the Kraków Metropolitan Area. At the same time, it points to the need for actions supporting the development of smaller towns in the most industrialised areas of the Voivodeship. The aim should be to give small and medium-sized towns the function of local public service centres as well as actively developing labour markets.

The issue of KMA as a metropolitan area is discussed in the "Sub-regional Development Programme in 2014-2020" which promotes implementation of RDS for Małopolskie Voivodeship 2011-2020<sup>27</sup>. A high priority is given to the promotion of Kraków Metropolitan Area as well as other sub-regions to the development of smaller cities and rural areas.

The strategy outlines the need for close cooperation of metropolitan and regional local government partnerships in order to strengthen its position and with the Upper Silesian conurbation that will create an Euro-pol: a competitive and specialised economic area operating on European and global level. A factor contributing to the achievement of this goal will be the development of the reputation of Kraków as a modern economic, scientific and cultural capital.

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<sup>26</sup>Strategy for the Development of Southern Poland until 2020, 5.04.2013.

<sup>27</sup>Sub-regional Development Programme in 2014-2020, attachment no. 1 to the Resolution of the Management Board of Małopolskie Voivodeship no. 1077/12, 31.08.2012.

The issue of urban development also appears in the context of the development of the sub-regions highlighted in the strategy. The strategy aims at the optimal use of the spatial potential of the Małopolskie Region, including the identification of the role of sub-regions in the development, and how towns can affect their development potential. In the Małopolskie Voivodeship, there are three sub-regions, namely:

- Kraków Metropolitan Area: the spatial and functional area of the Region with a nodal, monocentric core and associated contiguous zone, and strong potential for future investments;
- Sub-regions of Tarnów and Nowy Sącz which are important nodal, monocentric centres and contiguous zones attached to them;
- Other functional areas with polycentric centres that are not nodal but have distinct structural similarities and are affected by common processes that specifically determine their development (the sub-regions of Podhale and Western Małopolska).

In the forthcoming years, the regional policy will be based on the spatial levels of the sub-regions according to specific conditions and development needs to support economic development. Intervention in sub-regional areas will focus on priority programmes and projects using their key resources, whilst also removing barriers hindering economic development. The territorialisation of public intervention will serve to strengthen diversity and complementarity in sub-regions.

Planned activities carried out as part of the development policy will serve to develop and strengthen Kraków's competitive position at a national and European level. The most important activities focus on the following areas:

- the development of Kraków's functions as an important knowledge and innovation hub in European research and development, namely: the expansion of education, science and research infrastructure, the expansion of infrastructure necessary for the development of Kraków's prospective technological advantage, i.e. life sciences, clean energy, information and communication technologies and multimedia and the development of cooperation with Warsaw as part of the metropolitan network hub;
- adding to Kraków's metropolitan functions and ensuring services of the highest order, namely: expanding sports and entertainment infrastructure, culture infrastructure and health infrastructure;
- creating and developing a Kraków-Upper Silesia macro-regional area of cooperation, namely: the intensification of cooperation in knowledge-based industries, including the development of a knowledge and innovation hub, setting the direction of the macro-regional development of the labour market, preparing a joint investment prospectus and its external promotion, the creation of a shared leisure strategy based on diverse and complementary products in culture and tourism including: cultural, religious, active, specialist, recreational and business tourism;
- accelerating the development of the Kraków Metropolitan Area, namely: agreement on a common strategy to attract, invest and service investments within the metropolitan area, in conjunction with the creation and development of business activity zones, strengthening the residential function of the metropolitan area through the implementation of mechanisms regulating the suburbanisation process<sup>28</sup>.

The strategy also focuses on the development of small towns and rural areas. The strategic objective in this case is to create active centres of public economic services to ensure economic development opportunities for the residents of small and medium-sized towns and rural areas.

The strategy stressed the importance of the revitalisation of towns as part of the overall economic development plans for the Małopolskie Region. In the area of functional spatial management at the local level, there are plans to support the development of small and medium-sized towns in direct relation to the development of rural areas based on the rational management and use of local space. Actions taken in this regard: protection and preservation of the local environment, revitalisation of degraded urban areas, defined as an increase the attractiveness of public spaces, and the regeneration of post-industrial areas.

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<sup>28</sup>RDS for the Małopolskie Voivodeship in 2011–2020.

### 1.1.3. Experience in programmes / initiatives focusing on urban development, implemented in the Region

The major experience in programmes and initiatives focusing on urban development is the implementation of Priority Axis 5. Kraków Metropolitan Area under the Regional Operational Programme 2007-2013. The operational objective of this axis is: “Enhance the position of the Kraków Metropolitan Area as an important metropolitan centre in Europe”.

The activities under this priority axis are implemented within a specific geographic area – Kraków Metropolitan Area. The area covered by the KMA is specified in the Regional Spatial Development Plan. Under this priority axis a non-repayable aid was available with respect to activities undertaken within three main areas:

- enhance the KMA’s research potential;
- development of metropolitan functions;
- integrated metropolitan transport system.

Also, the activities undertaken under priority axis 6. Intraregional Cohesion aims at facilitating the cohesive development of the entire Region. In the context of the support for the development of urban areas, in particular investment projects aimed at revitalisation of urban areas. This involves historical town centres, degraded housing estate and post-industrial areas. Projects with respect to revitalisation supported under this activity have to be compatible with the revitalisation programmes.

Under the Regional Operational Programme for the Małopolskie Voivodeship in 2007–2013, 22 projects were implemented within the 5th priority axis “*Development of the Kraków Metropolitan Area*” and 110 projects within other MROP activities that support the development of the KMA in a complementary way. The total value of the projects analysed is nearly PLN 2.2 billion, while the amount of EU financial support for these projects reached PLN 1.25 billion. Although the number of projects under the 5th axis of the MROP is relatively small, they are fairly major investments as they absorb 60% of the total value of all the analysed projects.

#### Figure 81: Examples of experience in the implementation of urban development projects

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The “Creation of the Contemporary Art Museum in Kraków” project was co-financed under the MROP Measure 5.2 – Development of metropolitan functions of the Kraków Metropolitan Area. The beneficiary was the City of Kraków. The project included the reconstruction of the former Oskar Schindler enamel factory at ul. Lipowa 4, located in the former industrial district of Zabłocie, which in recent years has undergone rapid revitalisation. The factory complex has been turned into a museum and cultural centre with the dominant function being the Museum of Contemporary Art. The project not only rebuilt and renovated existing buildings, but also built new facilities and organised and regenerated the existing post-industrial space. The creation of the Museum of Contemporary Art in Kraków resulted from the following local documents:

- “The revitalisation and activation programme for the Zabłocie post-industrial area”,
- “Kraków Urban Revitalisation Programme”.

The entire project valued at PLN 75 M was 50% funded from European funds. The remaining funds for the project came from the City Council and the Ministry of Culture and National Heritage. The project was recognised by the Minister of Culture and National Heritage as one of the key projects in the country. The project was completed and the facilities implemented under the project are now operating.

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#### 1.1.4. Description of the draft assumptions to new ROPs

##### Regional Operational Programme for the Małopolskie Voivodeship in 2014–2020

The Regional Management Board accepted the assumptions of Regional Operational Programme for Małopolskie Voivodeship in 2014-2020 on June 24<sup>th</sup> 2013<sup>29</sup>. The main aim of the 1st Priority Axis “Conditions of knowledge-based economy development” is boosting economic competitiveness of Małopolskie Voivodeship through improvement of innovative activity conditions, stimulation of demand for innovation and supporting cooperation between universities and business. In particular, Measure 1.1 focuses on the development of smart specialization hubs as described in the Chapter 1.1.5 below. The Priority Axis no. 6. “Heritage and regional space” supports restoration and sustainable development of cities, tourist and rural areas by restoring lost or establishing new functions of the areas requiring revitalisation.

##### Kraków Local Regeneration Plan

The current Kraków Urban Revitalisation Programme was enacted in 2005. The priority tasks assigned to it were: The Old Town area within the Second Ring Road and Old Podgórze, “old” Nowa Huta with adjacent green areas, Zabłocie, for which separate local revitalisation plans were prepared. The remaining groups were rated equally. The analysis of the Local Revitalisation Plans indicates that in the future the following investments are planned:

- Parking areas in the LRP Zabłocie area,
- Redesigning for social use of the public space by the building at ul. Józefińska 24a,
- Modernisation of the markets at Plac Nowy,
- The project model: revitalisation of one quarter with residential and service buildings (Old Town).

The following are examples of experience in the implementation of projects under the Local Revitalisation Programme.

##### Figure 82: Pedestrian and bicycle footbridge across the Vistula at “Kazimierz-Podgórze”

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As part of the project “Construction of a pedestrian and bicycle bridge over the Vistula at Kazimierz-Podgórze” on the section between the Piłsudski and Powstańców Śląskich bridges, a footbridge was built for pedestrians and cyclists 143 metres in length, consisting of two paths, each of 3 metres width. The city council decided to name the bridge after Laetus Bernatek, a monk who in the late nineteenth and early twentieth century brought about the construction of the Bonifratrów hospital buildings in Kraków. The construction of the building took place over nearly three years, from July 2008 to March 2011.

The footbridge, with a design inspired by the structure of a leaf, is architecturally unique and perfectly fits the style of the historic buildings in the districts of Kazimierz and Podgórze. Thanks to a system of wire ropes, it was possible not to use vertical supports and, therefore, not disturb the scenery of the area. The Bernatek footbridge also contributed to an improvement in communication between both districts, as well as improving the aesthetics and land management in the vicinity of the banks of the Vistula.

The project came under the scope of the Local Revitalisation Programme in Kraków’s Old Town. The project with a total value of more than PLN 38.8 M received financial support from the Regional Operational Programme for the Małopolskie Voivodeship for a total amount of PLN 14.9 M. The project was implemented by the Communal and Transport Infrastructure Board in Kraków.

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Source: Kraków Public Information Bulletin: [www.bip.krakow.pl](http://www.bip.krakow.pl).

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<sup>29</sup> Regional Operational Programme for Małopolskie Voivodeship in 2014-2020, attachment no.1 to the Resolution of the Management Board of Małopolskie Voivodeship no 810/13, 24.06.2013.

**Figure 83: The new face of the centre of Tarnów**

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The “Programme ensuring the aesthetic and urban harmony of the city centre” is a revitalisation project in the old town of Tarnów, where a range of investments have been undertaken to improve the aesthetics as well as the leisure, tourism and cultural functions of the district.

Revitalisation work included the replacement of the surface of the “Burek” market square, the reconstruction of the historic city walls and the installation of illumination light in some parts of the city. A lot of small architectural objects were also created in the district, among them seats, terraces, pavilions and fountains. A statue of King Ladislaus the Short was erected at ul. Wałowa. In addition, an educational and historical walking route with the name Medieval Walls was developed and implemented in the historical centre of the city. On the surface of pavements in the centre, 32 plaques made of bronze have been placed guiding tourists along the historic city walls.

The project, worth nearly PLN 16.9 M, received financial support of PLN 6.4 M from the Regional Operational Programme for the Małopolskie Voivodeship. The programme was implemented from August 2007 to March 2012.

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Source: The official website of Tarnów: [www.tarnow.pl](http://www.tarnow.pl).

### **1.1.5. Smart Specialisation Strategy**

Regional specialisations are described by the Strategic Programme of the Regional Innovation Strategy for Małopolskie Voivodeship 2013-2020<sup>30</sup> (SPRISMV). The main objective of the SPRISMV 2013-2020 is to increase competitiveness and innovativeness of the Małopolska’s economy by implementing strategic policies concentrating on improving conditions for business, scientific and innovative activities, developing the information society, stimulating the demand for innovation, and reinforcing the cooperation bonds between science and economy – especially in the regional speciality fields. The SPRISMV 2013-2020 places stress on supporting regional specialisations in Małopolska. The key regional specialisations (so called smart specialisations) include:

- Life sciences,
- Sustainable energy,
- Information and communication technologies (including multimedia),
- Chemistry.

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<sup>30</sup> <http://www.malopolskie.pl/Pliki/2013/RSI%20do%20konsult.%20spolecznych.pdf>

## 2. FINANCIAL INSTRUMENTS & CASE STUDY ANALYSIS

### 2.1. Identification of supply and demand, including previous market failures

#### 2.1.1. Supply side

##### 2.1.1.1. Description of the FIs currently available in the Region

In 2012, there were 7 loan funds, 3 guarantee funds, 12 seed capital funds and 1 business angel network operating in the Małopolskie Voivodeship.

Figure 84: Key players in the regional FI market

<b>7</b>	<b>Loan funds</b>	<b>Guarantee funds</b>	<b>3</b>
	<ul style="list-style-type: none"> <li>• Małopolska Loan Fund</li> <li>• Enterprise Development Fund</li> <li>• Rabka Regional Development Foundation</li> <li>• Local Government Center for Entrepreneurship and Development</li> <li>• Foundation for the Development of Polish Agriculture</li> <li>• Western Małopolska Business Center</li> <li>• Western Małopolska Development Agency</li> </ul>	<ul style="list-style-type: none"> <li>• Małopolski Regional Guarantee Fund at Małopolska Regional Development Agency</li> <li>• Małopolski Credit Guarantee Fund</li> <li>• Tarnów Regional Development Agency</li> </ul>	
<b>12</b>	<b>Seed capital funds</b>	<b>Business angel networks</b>	<b>1</b>
	<ul style="list-style-type: none"> <li>• SATUS Seed Capital Fund</li> <li>• SATUS Venture Capital Private Equity Closed Investment Fund</li> <li>• Capital Investment Fund (Małopolska Regional Development Agency)</li> <li>• MicroBioLab (MicroBioLab Sp. z o.o.)</li> <li>• JCI Venture</li> <li>• Internet Investment Fund (IIF S.A.)</li> <li>• Nomad Fund</li> <li>• KPT Seed Fund</li> <li>• Business Incubator Media 3.0</li> <li>• Innovation Nest</li> <li>• Technology Incubator at the Karpacki Institute Foundation</li> <li>• Knowledge and Capital for IT and Telecommunications Innovation at the New Technologies Foundation</li> </ul>	<ul style="list-style-type: none"> <li>• SATUS Private Investors Network</li> </ul>	

Source: *Business and Innovation Centres in Poland 2012 – final report*, Association of Business and Innovation Center Organisers in Poland, Warsaw 2012.

### 2.1.1.2. Guarantees

In 2010, regional capital guarantee funds had guarantee capital of PLN 86.6 M. Only 16% of this amount was disbursed, which was the lowest utilisation rate recorded in Poland<sup>31</sup>. The fund was managed and coordinated by the Małopolski Credit Guarantee Fund (Małopolski Fundusz Poręczeń Kredytowych). As noted from discussions with market participants, it is difficult to specify reasons for the low utilisation of available guarantee capital by enterprises. It is possible that one of the reasons is the time required to enter the market during the recession and reduction in investment by potential beneficiaries.

#### The Małopolski Regionalny Fundusz Poręczeniowy Sp. z o.o. (Ltd)

Małopolski Regionalny Fundusz Poręczeniowy Sp. z o.o. at Małopolska Regional Development Agency S.A. is the largest loan guarantee fund in the Małopolskie Region, and it offers its services throughout the whole area of the Voivodeship. The fund offers its services to small and medium enterprises that are established, operate, or invest in the Małopolskie Voivodeship. The fund offers a guarantee of up to 80% of a loan or credit. The maximum value of an individual guarantee may be up to PLN 2 M. Depending on the type of credit/loan and the guarantee period, the commission charged by the fund varies in the range of 0.6–2.5%. The share capital of MRFP Ltd was originally PLN 21.7 M. However, in December, the fund received an additional financial support of PLN 50 M from the ROP for the Małopolskie Voivodeship.

### 2.1.1.3. Loans

In 2010, the Małopolskie Region loan funds granted loans for a total amount of PLN 52.8 M, which was the highest level among all Polish Regions.<sup>32</sup> The Region has a lot of loan funds, the most important of them are:

- Małopolska Loan Fund, granting loans for companies from the SME sector. Loans amount from PLN 10,000 to 400,000.
- Foundation for the Development of Polish Agriculture, providing loans for micro and small enterprises. Loans amount from PLN 5,000 to 250,000.
- Loan Funds of the Rabka Regional Development Foundation, Tarnów Regional Office, providing loans to micro-entrepreneurs. Loans amount from PLN 5,000 to 250,000.
- Local Government Center for Entrepreneurship and Development association, providing loans to micro-entrepreneurs. Average loan amount is PLN 40,000.
- Western Małopolska Business Center, providing loans for micro-entrepreneurs from poviats of: Chrzanów, Olkusz, Oświęcim and Wadowice. Loan amount: from PLN 5,000 to 150,000.
- Western Małopolska Development Agency S.A. providing loans to micro-entrepreneurs. Loans amount from PLN 5,000 to 200,000.

### 2.1.1.4. Equity

There are 12 seed capital funds in the Region. Among them are organisations focusing on a few sectors that are important for them, including information and communication technology Knowledge and Capital for IT and Telecommunication Innovation at the Foundation for New Technologies), IT and multimedia (Business Incubator Media 3.0), biotechnology, bioinformatics and neural networks (MicroBioLab), life sciences (JCI Venture), e-commerce (IIF S.A.) and funds with a less specific sector profile. The funds operating in the Region include:

4. KPT Seed Fund: funding early-stage development of projects/companies and their commercialisation. The maximum financial support available is EUR 200,000. The fund takes up to a 50% stake in a company.

<sup>31</sup>Report on the state of guarantee funds in Poland – as on 31.12.2010 – final report, National Association of Guarantee Funds, PAG/Uniconsult, Warsaw 2011.

<sup>32</sup>Diagnosis of the loan funds sector in Poland as on 31.12.2010 – final report, A. Alińska, Warsaw 2011.

5. JCI Venture: funding start-ups and early development of companies. In addition to funding projects, the fund offers technical support at the business development stage. The investment limit is EUR 200,000. The fund takes up to a 50% stake in a company.
6. Capital Investment Fund (established by MARR): funding early-stage development of a project/company and commercialisation. In addition to funding projects, the fund offers technical support at the business development stage. The fund offers financing from PLN 50,000 to 200,000. The total shareholding acquired by the fund must not exceed 50%.
7. Business Incubator Media 3.0: funding and supporting innovative start-ups. In addition to funding projects, the fund offers technical support at the business development stage. The investment limit is EUR 200,000. The fund takes up to a 50% stake in a company.
8. SATUS network of private investors: funding new projects with high market, technology and innovation potential, implemented by companies at an early stage of development. The fund provides financing for various projects, regardless of sector. The main focus is on incubating new projects and meeting the needs of new entrepreneurs. The investment limit is EUR 1.5 M.

## 2.1.2. Demand side

### 2.1.2.1 Prevailing urban development project typologies that could be eligible for JESSICA financing

Among the key potential areas of support from FIs identified by the Project Team, most of the projects were submitted in the category of revitalisation of urban areas (4). Followed by: social infrastructure (3), energy (2) and business support institutions (2). The structure of beneficiaries was dominated by local self-government units (14) and research institutions (6).

Figure 85: Number of projects by sectors and sub-sectors

<b>4</b>	<b>Revitalisation of urban areas</b>	<b>Energy</b>	<b>2</b>
0	Revitalisation of post-industrial and post-military areas	Energy efficiency	1
		Waste management	1
		Photovoltaic	1
0	Comprehensive modernisation of dilapidated buildings	Other renewable sources	1
		Heating	1
4	Other	Other	0
<b>3</b>	<b>Social infrastructure</b>	<b>Business support institutions</b>	<b>2</b>
0	Schools/nurseries	Research and development/innovation	2
0	Hospitals/long-term care	SMEs	0
0	Social and municipal housing	Business incubators/technology parks	2
3	Public buildings		
1	Other	Other	2
<b>2</b>	<b>Sustainable transport</b>	<b>Other</b>	<b>11</b>

Source: own study based on the Questionnaire.

Note: some projects have been classified into more than one category, and hence the sum of projects after counting all categories exceeds the total number of submitted projects.

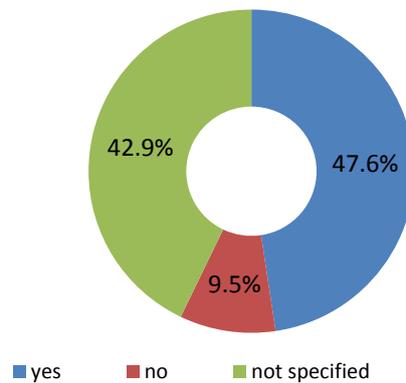
### 2.1.2.2. Appetite of final recipients (including municipalities) for the use of FIs in urban development

In the Małopolskie Voivodeship, research has not yet been carried out aimed at ascertaining the level of interest among potential beneficiaries of assistance from FIs in the 2014-20 Programming Period. Based on past experience with FIs the Marshal's Office and the Urban Development Institute predict little interest (these assumptions are not supported by research). It seems that interest in FIs may exceed expectations, if investors are not offered subsidies for the same purpose. Investors who responded to the Questionnaire will consider this form of financing in the absence of the possibility of obtaining a subsidy for the implementation of planned investments. In one case, an investor has declared his/her willingness to use equity instruments for the construction of the sports section at the Regional Center for Education and Sport in Dobczyce, for example.

In order to increase the interest of potential beneficiaries in FIs, according to a representative of the Marshal's Office, an information and promotional campaign should be carried out and, as a representative of the Urban Development Institute underlines, the attractiveness of loans and other FIs available under the initiative should be increased.

It is worth noting that only 9,5% of respondents rule out this form of financing in the event that it will not be possible to obtain a grant for the implementation of planned investments. The majority of respondents (47.6%) declare a willingness to use FIs in the event that there will be no support available in the form of grants in the 2014-20 Programming Period.

**Figure 86: Interest in FIs if they were the only form of financing for projects available in the 2014-2020 Programming Period**



Source: own study based on the Questionnaire.

**Figure 87: Sectors' demand for particular Financial Instruments**

Sector	Equity Instruments	Loan	Guarantee	Grant	No response	Total
Urban regeneration	1	0	0	3	1	5
Energy	0	0	0	2	0	2
Social Infrastructure	0	0	0	2	1	3
Business environment	0	0	0	1	1	2
Sustainable transport	0	0	0	1	1	2
Other	0	0	0	10	1	11

Source: own study based on the Questionnaire.

Note: some projects have been classified into more than one category, and hence the sum of projects after counting all categories exceeds the total number of submitted projects.

In the Questionnaire, the preferred form of investment support most often indicated by potential beneficiaries was non-refundable financing. This concerned most projects regardless of the subject area of the project or the beneficiary type. Only in the case of the project for the construction of the sports section of the Regional Center for Education and Sport in Dobczyce, there was a will to use equity instruments.

**Figure 88: Beneficiaries' demand for specific Financial Instruments**

Beneficiary type	Equity instruments	Loan	Guarantee	Grants	No response	Total
Local self-government units	1	0	0	11	2	14
Research institutions	0	0	0	6	0	6
Other	0	0	0	0	1	1
<b>TOTAL</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>17</b>	<b>3</b>	<b>21</b>

Source: own study based on the Questionnaire.

There were no responses to the Questionnaire in the Region from private companies; the only investor not belonging to a local self-government unit or college was Centrum Transferu Ekotechnologii Sp. z o.o. (Ltd). Among the areas that should be included in potential projects funded through FIs, the Marshal's Office listed:

- energy efficiency,
- urban development,
- fitting out investment areas.

In addition, the Urban Development Institute points to housing as an area that would extend the current scope of support.

According to a representative of the Marshal's Office, there is a need to provide support to beneficiaries in the preparation of projects and application documentation, which would encourage the use of the funds available under FIs. However, a representative of the Urban Development Institute held the opposite view, saying that if an instrument is cost-effective for a beneficiary, it is in their interest to prepare applications for financial support properly.

The respondents predict that in the 2014-20 Programming Period, there may be difficulties for beneficiaries to bring their own contribution. The reasons for this situation are, as explained by the representative of the Marshal's Office, the slowdown in investment and the high level of local self-government unit's debt.

According to the respondents, there is no need to introduce additional criteria for the eligibility of beneficiaries for projects funded by FIs in the 2014-20 Programming Period. Furthermore, the duration of projects should remain the same in relation to that of the current Programming Period. The representative of the Urban Development Institute adds that in the event of reducing the cost eligibility period, after its end, funds held by an UDF should be transferred to other projects from the same subject range.

According to the representative of the Urban Development Institute, the current system for implementing the JESSICA instrument ensures an efficient use of resources. However, as noted, the banks managing these funds are guided by restricted banking procedures and the instruments do not differ in this respect from traditional banking products. This results in lower interest among beneficiaries for receiving support under FIs. The representative of the Marshal's Office also acknowledges where banks are UDFs has its strengths, however, there is a view that there is a need to divide UDFs on various spatial and geographical areas, for example among large areas and small towns, if there are sufficient funds to do so. Furthermore, there is a view expressed about the benefits of the products from the point of view of smaller towns, which should not have to compete with big cities. Lastly, there is no need to place additional requirements on UDFs (as compared with the present situation) according to the stakeholder. As for changes that should be implemented in the JESSICA management system, he recommends changes in interest rates to make it cost-effective, as well as the promotion of the instrument.

Differentiation between urban projects that should be supported through subsidies and ones that should be financed with FIs should occur, according to the representative of the Marshal's Office, depending on the size of the return on investment. Similarly, projects that are likely to generate revenue should benefit from funding through FIs.

In the next 2014-2020 Programming Period, according to respondents, credits and loans are likely to be suitable products among potential beneficiaries. Equity participation and guarantees will probably be used only in the case of projects that provide a fast return. According to the representative of the Urban Development Institute, FIs that are the most financially advantageous will enjoy the greatest interest, although no specific instruments were pointed out.

The use of FIs by local self-government units is often indicated as a difficulty in the context of rising local government debt. One way to mitigate this, the representative of the Marshal's Office proposes the implementation of projects through Public-Private Partnership to keep debt off the balance sheet. However, according to the representative of the Urban Development Institute, municipality communes are already taking various steps to limit growth increases in debt levels. Representatives of both institutions consider it reasonable to combine FIs with other forms of funding, such as subsidies from the ESF or regional and national support programmes.

The representative of the Marshal's Office found a proposal to direct some of the FIs to central programmes and projects perhaps justifiable in the case of economic support for areas of economic activity.

Oświęcim identifies the following projects that could benefit from financial support under the FIs: The "Oświęcim Meeting Space" and the "Olympic Sports Center". Nowy Sącz pointed to a number of projects,

including infrastructure projects: the construction of the Nowy Sącz northern bypass and the route parallel to ul. Węgierska (Węgierska BIS), and also projects on the Plac Słowackiego square, the revitalisation of the old town, the renovation of the town hall, the restoration of the Starościński castle and the “Venice of Nowy Sącz” project.

A representative of the Office of Urban Development in Oświęcim noted that changes in the new Programming Period should focus on the lengthy decision-making period and lengthy settlement period for projects. However, according to a representative of the Municipal Office of Nowy Sącz, in the 2014-20 Programming Period, subsidies for FIs should not be entirely disregarded, as they are – according to the respondent – no different from bank loans. In the opinion of some respondents, grants are a form of financing needed primarily from the perspective of local self-governments, which fear that they will not be able to repay debts in the future. This concern, according to the representative, may be so large that in the case of withdrawal of subsidies, towns may reduce the number of investments.

### 2.1.2.3. Funding urban development

The total amount of requested financial support under the MROP 2007-2013 Measure 6.1 “Urban development Scheme A” was over PLN 357 M (64 projects were submitted and implemented only under revitalisation programmes with full documentation). 47 projects were selected for receiving financial support, where total funding is expected to reach more than PLN 268 M. It means that 17 projects were rejected that had a total requested level of financial support of approximately PLN 89 M.

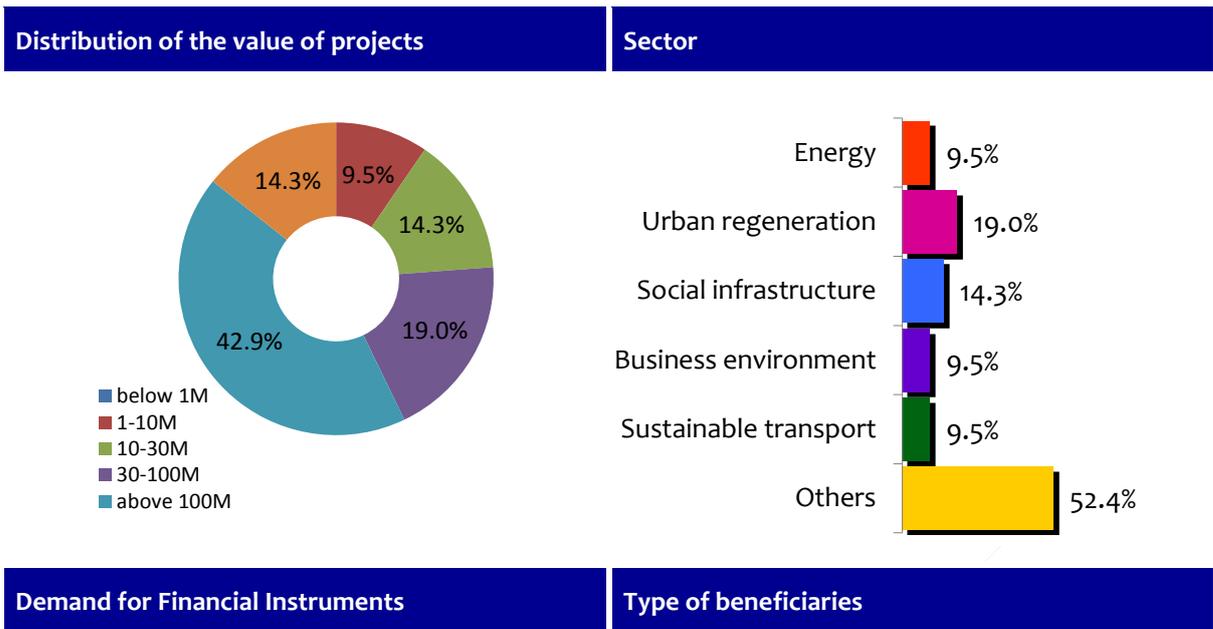
Under Measure 3.2 Scheme A – Cultural heritage and redevelopment of spatial systems – 67 applications were submitted for an amount of financial support above PLN 140 M. Agreements were signed for the implementation of 32 projects with a total financial support of PLN 124.5 M. Therefore, 35 projects were rejected.

Among projects from the Region submitted in the questionnaire, 4 investors declared that they unsuccessfully applied earlier for external financial support from public assistance programmes (structural funds, national funds available from ministries). For example, the investor Jagiellonian University-Collegium Medicum applied for external funding for the construction of an Education and Research Center, while the Municipality Commune of Tarnów applied for financing for a project of “Revitalisation of degraded urban spaces”.

## 2.2. Identification of potential pipeline and Case Studies

### 2.2.1. Identification of potential projects

<b>Number of projects</b>	<b>21</b>
<b>Total value</b>	PLN 1960.2 M
<b>Average value</b>	PLN 115.3 M



Source: own study based on the Questionnaire.

In the Małopolskie Voivodeship, 21 projects were submitted with a total budget of PLN 1,782.5 M. Only in the Łódzkie and Wielkopolskie Voivodeships projects were submitted with a higher total budget: PLN 1,960.2 M and PLN 8,060.8 M respectively. The average project value was also high, i.e. PLN 99.7 M. Nearly half of the projects had budgets in excess of PLN 100 M (42.9%) which was the case only in the Małopolskie Region (the average share of the largest projects in the entire projects population for all Regions is below 10%). The projects in the category over PLN 100M were submitted both by the municipalities (eg. WtE plant in Tarnów) and research units / business environment units (eg. projects submitted by the Jagiellonian University). More than half (66.7%) of the projects were submitted by local self-government units.

In terms of the key areas of investment, the greatest number of projects was in the area of urban revitalisation (19.0%), followed by social infrastructure (14.03%). Energy, business support institutions and sustainable transport accounted for 9.5% of submitted projects. A very high percentage (52.4%) were reported in the category “Others”, which included research and development projects, environmental protection, tourism, sport and recreation. Małopolskie noted the highest percentage of projects in business environment / R&D sector, with 9 projects in these categories. This demand is in line with Region’s strategy and smart specialisation that focuses on knowledge-based economy based on strong academic center in Kraków. This has been analysed in detail as part of Case Studies undertaken and recommendations as of potential thematic focus on the business environment / R&D sectors have been made.

For almost all projects, the preferred form of support was non-refundable financing (89.5%). One beneficiary (5.3%) mentioned also equity instruments.

### 2.2.2. Identified Long List

The presentation of all projects in identified in the Region can be found in Appendix III.

### 2.2.3. Presentation of an Interim list

The presentation of all projects in the Interim List can be found in Appendix IV.

### 2.2.4. Identification of two Case Studies

Project	Beneficiary	Sector	Value (PLN M)
Education and Research Center & Małopolskie Biotechnology Center	Jagiellonian University	Business environment SME/R&D	120+ 58
Regional Waste Incineration Plant	Gmina / City of Tarnów	Energy	500- 650

### 2.2.5. Detailed analysis of two Case Studies

The presentation of two Case Studies analysed in the Region can be found in Appendix V.

### 3. RECOMMENDATIONS & CONCLUSIONS

Potential project demand for FIs in each of four subsectors have been defined for the Małopolskie as following:

Figure 89: Potential demand for FIs for Małopolskie

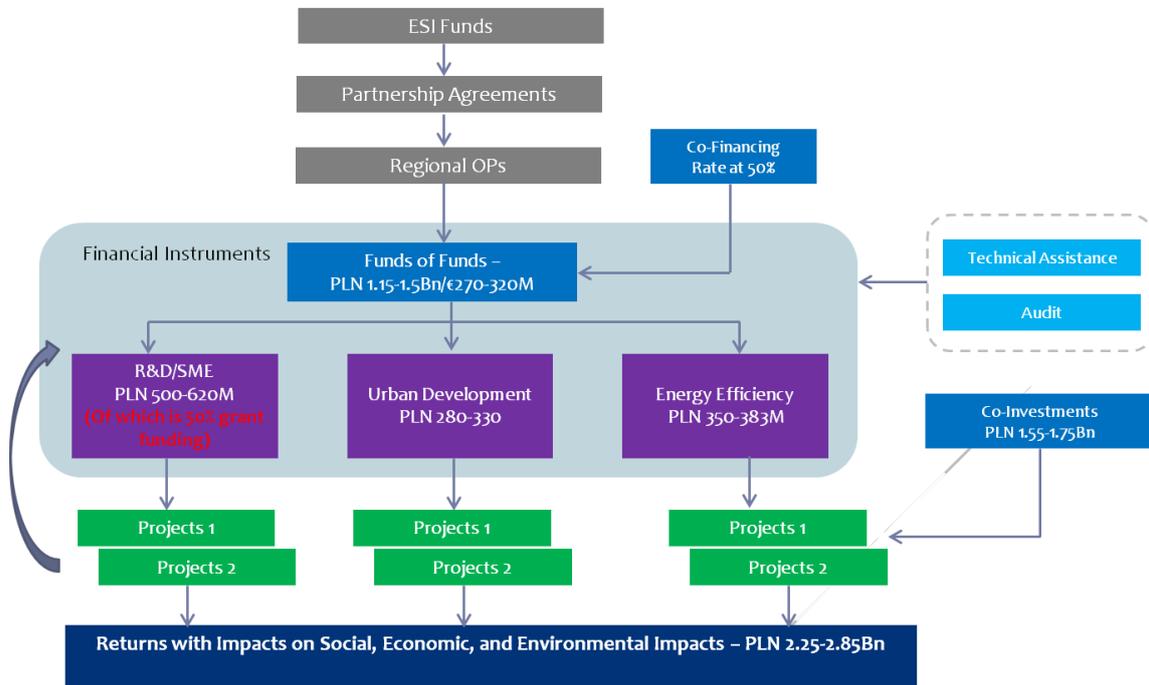
In PLN millions	Energy	Urban	Business Environment	Others	Total
JESSICA-type Equity	90-95 M	105-110 M	180-185 M	5 M	
JESSICA-type Loans	205-210 M	145-150 M	305-310 M	15-20 M	
JESSICA-type Guarantees	75-80 M	30 – 35M	120-125 M	5 M	
<b>Estimated FI Size</b>	<b>380-385 M</b>	<b>295-300 M</b>	<b>615-620 M</b>	<b>25-30 M</b>	<b>1.15 - 1.5 Bn (€270-320 M)</b>
<b>Estimated Co-Investments</b>					<b>1.55 - 1.75 Bn</b>
<b>Estimated Leverage Factor</b>					<b>2.2</b>

There is a strong emphasis on research and innovation in Małopolskie due to the high concentration of higher education institution, including Jagiellonian University, and well-educated population and a strong technology, healthcare and biotechnology sector. Based on the Questionnaire and the market analysis as described in detail in Chapter 8 *General Definition of Financial Gap* of Part I of this Study, Małopolskie had the highest total project value in the Business Environment and SME sector, followed by urban development. Therefore, it is suggested that through a **Fund of Funds structure**, three areas of intervention should be in particular taken into account and potentially three UDFs could be established:

- **Business Environment/R&D/SME** providing a mix of equity and loans to support collaboration between academic institutions and businesses. Based on the projects submitted, there is high interest from universities and business in engaging in R&D projects and enable its commercial use. This would fit strategically with Małopolskie's Smart Specialisation Strategy currently in development and further promoting Kraków as an important knowledge and innovation hub in Poland and in Europe. Projects would be focused on infrastructure supporting business activities including technology parks, industry clusters etc. This UDF should in particular provide for the opportunity of combining FIs with the grant funding, also from the ESF. The Case Study on two business environment projects provided by the Jagiellonian University presents a possible combination of FI with grant funding. It is assumed that out of PLN 620 M in this UDF, approximately 50% will be disbursed through the grant funding.
- **Urban Development** providing loans and equity to support various regeneration schemes in the Region. There are considerable opportunities to further augment the tourism industry due to the numerous heritage sites in the Region through historic preservation or redevelopment derelict buildings for cultural and/or leisure centres.
- **Energy** through loans for energy-related projects. Based on the Case Study analysis, there is strong potential for further development in the energy efficiency and renewable energy sector such as waste-to-energy. The large-scale regional waste-to-energy installation submitted by city of Tarnów has been analysed as a Case Study. This and smaller-scale waste projects (incinerators but also- biomass, biogas and waste selection installations) form a possible project pipeline of potentially viable projects. Two other sub-sectors that might create additional demand for project financing through FIs are small-scale district heating and street lighting that were popular in other Regions.

An estimated FI size of PLN 1.15 – 1.5 Bn/€270- 320 M is recommended for Małopolskie.

Figure 90: Indicative Organisational Scheme for Małopolskie



FIs need to be operational ideally by late 2014 or beginning of 2015 in order to capitalise on the benefits of FIs over the longest period,. This allows for sufficient time to develop the investment strategy and scope to be undertaken after the Partnership Agreement and ROPs are finalised in the first half of 2014 (timescales to be confirmed by the Commission). MAs are encouraged to conduct an ex-ante assessment as soon as possible and start with the tender process to procure a Fund of Funds Manager.

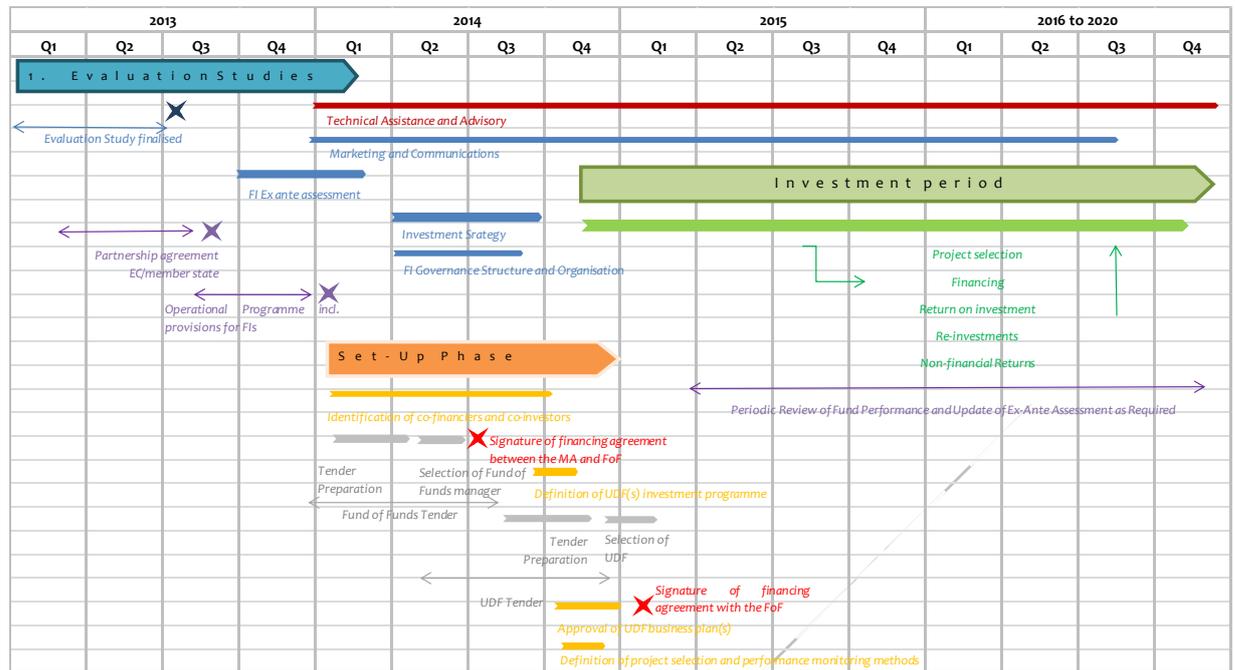
The Article 38 CPR enables MAs to entrust implementation of FIs to:

- directly to the EIB;
- international financial institution in which a Member State is a shareholder, or financial institutions established in a Member State aiming at the achievement of public interest under the control of a public authority; or
- a body governed by public or private law.

The MA may also implement FIs directly, but in this case FIs are limited to loans and guarantees.

Should the Małopolskie wish to appoint the EIB as the Fund of Funds Manager, then this can be done as a direct award without going through the formal procurement process, which can take up to 6 months. Alternatively, subject to national procurement laws, Małopolskie can also select another financial institution as the Fund of Funds Manager.

Figure 91: Indicative Implementation Timescale for Małopolskie



### 1. REGIONAL POLICY CONTEXT

#### 1.1. Analysis of the general conditions for urban development in Mazowieckie Region



<b>Area (ths km<sup>2</sup>)</b>	35,558
<b>Population (ths 2010)</b>	5,243
<b>Urbanisation ratio*</b>	64.7 %
<b>Unemployment rate (2012)</b>	10.1 %
<b>Relative average salary** (2011)</b>	124,3

Source: The Central Statistical Office

\* urban population as percentage of total population

\*\*average monthly gross salary to the national average (Poland = 100)

#### 1.1.1. General Presentation and Experience to Date

##### Key features and challenges of Region's city areas

Smart Specialisation Strategy The rapid urbanisation of towns and rural areas, uncontrolled development, and inefficient land management, as well economic changes within Mazowieckie Voivodeship are challenges for the Region<sup>33</sup>. This rapid urbanisation creates excessive social costs as well as damage to the natural environment and landscape, hindering sustainable development. As a result of uncontrolled development caused mainly by the lack and/or poor quality of local spatial development plans (LSDP), there is an excessive growth in the consumption and losses on distribution of electricity. Furthermore, local self-government unit budgets are strained disproportionately with the costs of fitting out the land. As a result, many urban centres are losing their economic function. This leads to poor quality of public spaces, impacting the quality of life of residents and property values.

In the Mazowieckie Voivodeship, there is also the problem that basic characteristics of towns and villages do not correspond with the administrative status. Not every village in the Voivodeship has rural characteristics and not every town is urban. The majority of areas which, as a result of delimitation, having conflicting socio-economic characteristics and demographics that are different from the status of the municipality commune that they are a part of, are found in the Warsaw Metropolitan Area. Minor changes are also visible around regional centres (Radom and Płock) and sub-regional centres (Siedlce and Ostrołęka).

A phenomenon that has developed in the last few years in the Voivodeship is the dilapidation of town centres, former industrial areas and housing estates, as well as exit roads from towns and cities. Preventive measures have been taken in this regard by using EU funds aimed at revitalisation of urban areas. In the years 2004–2010, EU funds (PLN 230 M) were used to revitalise 27 urban centres. In addition, towns within Mazowieckie also participated in a number of initiatives to improve the quality of urban fabric and housing, including the NODUS project carried out as part of the URBACT II programme. Mazowieckie Regional Revitalisation Council was established as the result of this programme.

<sup>33</sup>RDS for the Mazowieckie Voivodeship until 2030.

## Experience in using Financial Instruments

The Region has experience in the implementation of FIS via the JESSICA initiative in the current Programming Period 2007-2013. As of September 30<sup>th</sup> 2013, 5 agreements for an amount of PLN 27 M has been signed. Mazowieckie also has experience in the Implementation of JEREMIE with an allocation of PLN 65 M<sup>34</sup>.

### 1.1.2. Description of the Mazowieckie Region and the key priorities for the Region's development

#### Urban areas in the Region

The area of the Mazowieckie Voivodeship is highly urbanised with 65% of the population living in major cities and towns. The regional capital of Warsaw, with a population of approximately 1.7 M (2.7 M within a metropolitan area) is a principal international destination and an important economic hub in Central Europe. Warsaw is also regarded as a leading science and higher education centre and strong employment base, dominated by the professional service sector.

The Warsaw Metropolitan Area (WMA) comprises 71 municipality communes from 14 poviats (counties): Grodzisk Mazowiecki, Grójec, Legionowo, Mińsk Mazowiecki, Nowy Dwór Mazowiecki, Otwock, Piaseczno, Pruszków, Sochaczew, Warsaw West, Wołomin, Wyszaków and Żyrardów.<sup>35</sup> Eight additional municipality communes from the Mińsk Mazowiecki powiat and the Poświętne commune from the Wołomin powiat applied to join the delimited area. There are 36 towns in the WMA (37 in the extended variant). The population of the WMA is 57.1% (58.2% in the extended variant) of the Voivodeship's population and the urban population of the WMA is 72.6% of the Voivodeship's urban population. The layout of the settlement network in this part of the Mazowieckie Region due to the presence of Warsaw is monocentric.

#### Key strategic documents in the context of urban development

The Mazowieckie Voivodeship Regional Development Strategy until 2030 (MVRDS 2013) outlines the major urban and development issues, emphasizing the duality of development of the Voivodeship and the differences between Warsaw/the Warsaw Metropolitan Area and other towns of sub-regional significance. It singles out main centres in respect of socio-economic development: Warsaw and two regional centres: Radom and Płock, and three sub-regional centres: Ostrołęka, Siedlce and Ciechanów. The settlement network constitutes a potential for the development of functional and communication connections, and the enhancement of regional, sub-regional and powiat centres affects the balanced development of the Voivodeship. The strategy also involves towns with tourist potential, which is of significant importance for the development of the Voivodeship.

The MVRDS 2030 also refers to Areas of Strategic Intervention. As a result of analyses, the MVRDS 2030 distinguishes two types of ASI:

- areas generating socio-economic growth or having potential, i.e. the Warsaw Metropolitan Area and the links between Łódź and Warsaw;
- public interventions are aimed at preventing the marginalisation of these areas and developing their ability to integrate with the economic growth poles; sub-regions have been classified: Ostrołęka-Siedlce, Płock-Ciechanów, Radom.

<sup>34</sup> <http://www.jeremie.com.pl/posrednicy/mazowieckie/o-jeremie/>

<sup>35</sup> This delimitation was approved by the Mazowieckie Voivodeship Board in January 2006.

### **1.1.3. Experience in programmes / initiatives focusing on urban development, implemented in the Region – including summary of key programs / project**

The following types of projects can be supported under the Regional Operational Programme 2007-2013:

- rehabilitation of urban areas, including revitalisation of housing stock, old buildings and centres;
- revitalisation activities in urban centres where poviats are located, including Warsaw and sub-regional centres: Radom, Plock, Siedlce, Ostrołęka, Ciechanów as well as other poviat cities, which are important administrative centres serving the local community.

Support may be granted only to priority areas in integrated local revitalization programmes aimed at urban regeneration. Support is also given to activities aimed at socio-economic development, for example, security zones and crime prevention, including installation of monitoring systems. Revitalisation of degraded post-military areas through adaptation, reconstruction, or renovation of such buildings for the socio-economic objectives is also possible under the ROP, in addition to refurbishment of multi-family housing buildings. It is possible to adapt the buildings for housing purposes only if they are public property or property of non-profit organizations and are designated for low-income families or people with special needs<sup>36</sup>.

Examples of projects under ROP:

- Revitalisation of the historic casino building for the need of creating the Centre of Local Activity in Pionki. Beneficiary: City of Pionki. Project value: about EUR 1.6 M;
- Renovation of the monumental structures and public space in Szydłowiec, increasing the functionality and accessibility of the tourism and cultural infrastructure for the inhabitants of the Mazowieckie Region. Beneficiary: City of Szydłowiec. Project value: EUR 29.8 M.

### **1.1.4. Description of the draft assumptions to new ROPs – its strategy, priorities and proposed institutional set-up (including approach to ITIs and CLLD); strategic fit within the national framework.**

#### **Regional Operational Programme for the Mazowieckie Voivodeship in 2014–2020**

The initial draft of the Regional Operational Programme for the Mazowieckie Voivodeship for the Programming Period 2014–2020 does not include explicit measures aimed at urban development. This is connected with the need to select other areas for support due to limitations of EU funds for the Mazowieckie as the Region will be phasing out as a convergence Region. Integrated Territorial Investments envisage achieving the following:

- the development of functional, infrastructural and institutional connections between the capital of the Voivodeship and other urban centres at regional and national levels;
- the promotion of the development of cooperation in spatial planning, public transport (infrastructure, rolling stock and organisational solutions), utilities, the labour market, especially where the scale of the problems associated with the lack of cooperation and complementarity between the various administrative units is the largest;
- enhancing the metropolitan functions of the capital of the Voivodeship; mostly scientific, social, economic, tourist and symbolic functions, including culture.

The consultation process of FIs supporting territorial development in the Mazowieckie Region is to be correlated with the structure of the ASI and the map of Mazowieckie sub-regions. The Local Action Groups (Lokalne Grupy Działania) and the Local Fishing Group (Lokalna Grupa Rybacka) will be part of the consultation. The results of the consultation of integrated approach instruments will be associated with the work on a territorial contract for the Mazowieckie Region, where one of the main sources of financing

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<sup>36</sup> ROP for the Mazowieckie Voivodeship 2007–2013, 2011, p.117

are funds under the Common Strategic Framework<sup>37</sup>. The ex-ante evaluation of the ROP has already been launched.

### Local Regeneration Programme

In order to identify projects that may potentially be able to use FIs, besides the Questionnaire data, a review of Warsaw Local Revitalisation Programmes was carried out. So far in the Warsaw area, several activities falling under this document have been carried out, and the following investments are planned.

**Figure 92 : Investment projects to be implemented by LRPs for Warsaw**

Project name	Completion time	Value (ths. PLN)	Investor
Introducing in the attic of the building at ul. Próźna 12 of cultural and educational activity related to history and culture of the nationalities living in the area of Warsaw (including the Jewish community).	2012–2015	6,070	Capital City of Warsaw
The modernisation and expansion of the infrastructure of the Narvik Heroes School Complex with reconstruction of nearby road infrastructure	2008–2019	63,879	Włochy District Office, Capital City of Warsaw
Renovation and modernisation of the housing estate located between ul. Sierpnia 1 and the railway line from building marked No. 26 to No. 42 and 44A.	2012–2017	5,000	Włochy District Office, Capital City of Warsaw
Renovation and modernisation of the housing estate located at ul. Stycznia 17, ul. Astronautów and ul. Zarankiewicza	2012–2017	3,000	Włochy District Office, Capital City of Warsaw

Source: Local Revitalisation Programme

**Figure 93: Examples of experience in the implementation of revitalisation projects**

The ruins of the medieval Castle of the Mazovian Princes in Ciechanów is one of the most interesting and unique relics of the defence systems of the Mazovian princes, which also includes other military buildings built in Czersk, Nowe Miasto, Liw and Warsaw. The project Revitalisation of the Castle of the Mazovian Princes in Ciechanów –Frontier Center for Culture (Phase I) constituting the first stage of the revitalisation of the castle is aimed at enhancing cultural and educational functions, as well as the creation of new ties among inhabitants with the Region’s cultural heritage.

The project includes comprehensive restoration works of the castle. The reconstruction of the Little House, one of the elements of the castle, includes the creation of a reception, lecture hall, gift shop, library and education room and the construction of a new plumbing system. The project also envisages the purchase a modern audio-visual system to present information, which will aim to improve the experience of guests touring the castle, as well as provide knowledge in an attractive form.

The project budget was more than PLN 11.8 M, of which PLN 8.3 M was financed from EU funds under the Operational Programme for the Mazowieckie Voivodeship. The project was implemented by the Mazowieckie Gentry Museum in Ciechanów. In subsequent years, two more stages of the revitalisation of the castle are planned based on the reconstruction of the Big House opposite the Little House and the development of land around the castle.

Source: Ciechanów Local Revitalisation Programme 2005–2013 (2005); source materials: [www.rpo.mazovia.pl](http://www.rpo.mazovia.pl).

### 1.1.5. Smart Specialisation Strategy

The smart specialisation in Mazowieckie Voivodeship is still being consulted with the market. The areas considered are: energy, ICT, medical sector and chemistry.

<sup>37</sup>The initial Draft of the Regional Operational Programme for the Mazowieckie Voivodeship in 2014–2020.

## 2. FINANCIAL INSTRUMENTS & CASE STUDY ANALYSIS

### 2.1. Identification of supply and demand, including previous market failures

#### 2.1.1. Supply side

##### 2.1.1.1. Description of the FIs currently available in the Region

The FI market in the Mazowieckie Voivodeship is one of the most developed in Poland. In 2012, 7 loan funds, 4 guarantee funds<sup>38</sup>, 25 seed capital funds and 1 business angel network were operating in the Mazowieckie Voivodeship.

Figure 94: Key players in the regional FI market

7	Loan funds	Guarantee funds	4
	<ul style="list-style-type: none"><li>• Enterprise Development Fund at the Ostrołęka Entrepreneurship Support Movement</li><li>• Enterprise Development Fund at the Radom Association Center for Entrepreneurship</li><li>• Mazowieckie Regional Loan Fund</li><li>• Foundation for the Development of Polish Agriculture</li><li>• Rural Development Foundation</li><li>• The Association for Enterprise Development and Local Initiatives</li><li>• Żyrardów Association for the Support of Entrepreneurship</li></ul>	<ul style="list-style-type: none"><li>• Credit Guarantee Fund</li><li>• Mazowiecki Credit Guarantee Fund</li><li>• Powiat Credit Guarantee Fund Ltd</li><li>• Powiat Credit Guarantee Fund of the Radom Association for Entrepreneurship</li></ul>	

<sup>38</sup>*Business and Innovation Centres in Poland 2012 – final report*, Association of Business and Innovation Center Organisers in Poland, Warsaw 2012.

25	Seed capital funds	Business angel networks	1
	<ul style="list-style-type: none"> <li>• BBI Seed Fund</li> <li>• AIP Seed Capital</li> <li>• Giza Polish Ventures</li> <li>• Business Angel Seed fund</li> <li>• AerFinance Ventures</li> <li>• Efund</li> <li>• IQ Partners</li> <li>• Ventures Hub</li> <li>• hardGamma Ventures</li> <li>• Xewin Investments</li> <li>• Opera Venture Capital</li> <li>• Asset Management Black Lion</li> <li>• Skyline Venture</li> <li>• LST Capital S.A.</li> <li>• “Spinnaker of Innovation” project (Spinnaker Innowacji)</li> <li>• Investin</li> <li>• TechnoBoard</li> <li>• KIGMED.eu</li> <li>• Helix Ventures</li> <li>• Mazovian Technology Incubator Ltd</li> <li>• Incubator Management Observatory</li> <li>• Initiation of innovation with a global potential in ICT</li> <li>• Two-stage support for innovative project originators at Akcelerator Innowacji NOT Sp. z o.o. (Ltd)</li> <li>• Innovation Factory</li> <li>• IQ Advisors</li> </ul>	<ul style="list-style-type: none"> <li>• Lewiatan Business Angels (LBA)</li> </ul>	

Source: *Business and Innovation Centres in Poland 2012 – final report*, Association of Business and Innovation Center Organisers in Poland, Warsaw 2012.

### 2.1.1.2. Guarantees

In 2010, regional capital guarantee funds held a guarantee capital totalling PLN 85.3 M (6th position)<sup>39</sup>. Commitment to capital ratio was as high as 200% and was the highest among all Polish Regions (*equal with Wielkopolska*). The largest guarantee fund in the Region, the Mazowiecki Loan Guarantee Fund, is the 5th largest entity of its kind in Poland, with a total guarantee capital in 2010 standing at PLN 53.6 M.

#### The Mazowiecki Loan Guarantee Fund

The Mazowiecki Loan Guarantee Fund is the largest guarantee fund in the Region and the 5th largest entity of its kind in Poland, with a total guarantee capital in 2010 standing at PLN 53.6 M. The Fund was established in 2003 as part of the creation of a nationwide system of guarantee and loan funds. Fund shareholders are local self-governments, the Treasury, business associations and chambers of commerce. The maximum value of a guarantee from the fund may not exceed 70% of the loan amount. In the case of revolving credit, the maximum guarantee amount is PLN 1 M, and in the case of investment loans and bridging guarantees, the maximum is PLN 2 M. So far, the fund has facilitated business for almost 3000 enterprises conducting economic activity or starting-up.

<sup>39</sup> *Report on the state guarantee funds in Poland – as on 31.12.2010* – final report, the National Association of Guarantee Funds, PAG/Uniconsult, Warsaw 2011.

### 2.1.1.3. Loans

In 2010, the loan funds of the Mazowieckie Voivodeship granted loans for a total amount of PLN 44.0 M (4th position in Poland). In the same year, the active loans in the Region amounted to PLN 87.0 M (2nd position, after the Małopolskie Voivodeship).

### 2.1.1.4. Equity

The Mazowieckie Voivodeship is the Region with the most developed seed capital fund sector in the country. In Mazowieckie, as many as 25 such entities are operating, which accounts for over one third of the total in Poland. Most of them are investing in innovative projects in various industries, but there are also those that concentrate support on selected sectors (e.g. ICT – Initiating innovative activities with global potential in e-medicine – KIGMED.eu). The only business angel network in the Voivodeship, Lewiatan Business Angels (LBA), is one of the most active in the country. The network's flagship investments include the coffee chain “W biegu”, the film producer: Ozumi Films, and the heart rate monitor manufacturer: Medical Algorhythms.

### 2.1.1.5. JEREMIE

Mazowieckie has been implementing JEREMIE under a total allocation of PLN 65 M.

## 2.1.2. Demand side

### 2.1.2.1. Prevailing urban development project typologies that could be eligible for JESSICA financing

Key areas of support under JESSICA are: revitalisation of urban areas (20 projects), social infrastructure (10 projects), energy (3 projects) and business support institutions (1 project). Approximately, 27 of the 35 projects were submitted by local self-government units.

Figure 95: Number of projects by sectors and sub-sectors

20	Revitalisation of urban areas	Energy	3
5	Revitalisation of post-industrial and post-military areas	Energy efficiency	2
		Waste management	1
		Photovoltaics	1
10	Comprehensive modernisation of dilapidated buildings	Other renewable sources	0
		Heating	0
9	Other	Other	1
10	Social infrastructure	Business support institutions	1
5	Schools/nurseries	R&D/innovation	1
1	Hospitals/long-term care	SMEs	0
1	Social and municipal housing	Business incubators/technology parks	1
4	Public buildings		
3	Other	Other	1
3	Sustainable transport	Other	5

Source: own study based on the Questionnaire.

Note: some projects have been classified into more than one category, and hence the sum of projects after counting all categories exceeds the total number of submitted projects.

#### 2.1.2.2. Appetite of final recipients (including municipalities) for the use of FIs in urban development

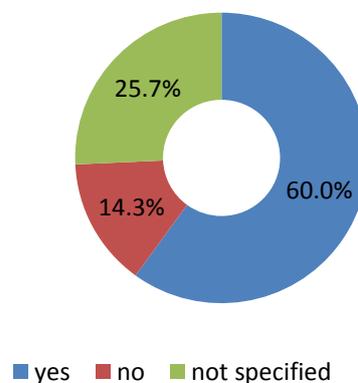
No market research/analysis was carried out in the Mazowieckie Voivodeship aimed at diagnosing the level of interest for potential support using FI, thus respondents had no knowledge of the level of interest in support as part of FIs in the next Programming Period.

To increase the interest of potential beneficiaries in JESSICA, actions should be taken to generate interest amongst local self-government units. It would also be beneficial to amend legislation, which would mean that loans under JESSICA are not included in public debt.

Generally, however, the level of knowledge and understanding of JESSICA among its potential beneficiaries is increasing. For now, however, an important issue is the level of support for preparation of projects. Favourable financing conditions are encouraging investors and project preparation takes time. Few projects that could potentially have benefited from funding under the Financial Instrument were prepared for implementation.

According to an UDF representative in Mazowieckie, the low level of usage of the instruments available under JESSICA by local self-governments is due to debts, resulting in the reduction of investment activities than originally planned.

Figure 96: Interest in FIs if they were the only form of financing for projects available in the 2014-2020 Programming Period



Source: own study based on the Questionnaire.

For all sectors and types of beneficiaries, the most frequently indicated form of assistance was non-refundable support. In 3 out of 35 projects, interest was expressed in obtaining a loan as form of financing. These were investments in revitalisation of urban areas and social infrastructure: revitalisation of the Municipal Cultural Center in Pilawa, construction of a school in Radzymin and expansion of a hospital in Ostrów Mazowiecka.

Figure 97: Sectors' demand for specific Financial Instruments

Sector	Equity instruments	Loan	Guarantee	Grants	No response	Total
Revitalisation of urban areas	0	2	0	15	3	20
Energy	0	0	0	1	2	3
Social infrastructure	0	2	0	5	3	10
Business support institutions	0	0	0	1	0	1
Sustainable transport	0	0	0	2	1	3
Other	0	0	0	4	1	5

Source: own study based on the Questionnaire.

Figure 98: Beneficiaries' demand for specific Financial Instruments

Beneficiary type	Equity instruments	Loan	Guarantee	Grants	No response	Total
Local self-government units	0	2	0	21	4	27
Public sector companies	0	1	0	0	1	2
Private companies	0	0	0	0	1	1
Research institutions	0	0	0	1	0	1
Other	0	0	0	2	2	4
<b>TOTAL</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>24</b>	<b>8</b>	<b>35</b>

Source: own study based on the Questionnaire.

In the opinion of the Marshal's Office, projects financed by FI in the 2014-20 Programming Period should involve revitalisation, social infrastructure, energy and business support organisations. According to the respondents, FIs should be used to support profitable projects implemented by entrepreneurs. The subsidy funding system should be provided for projects that do not generate revenues, but have positive socio-economic impacts, such as projects aimed at supporting employment and promoting cultural heritage. However, due to the limited amount of resources, there needs to be a careful consideration of which projects to support. The Marshal's Office's view is that in general projects funded by local self-government units will require the support mostly with the non-refundable financing but the options for using FIs also in these cases should be considered. In the 2014-20 Programming Period, it should also be possible to combine FIs with subsidies, but without differentiation of these options depending on the type of project or beneficiary type. Additionally, selection criteria should be developed to ensure financing is provided to projects that fit within the strategic framework of the Region.

It is expected that in the next Programming Period, there may be difficulties for local self-government units to bring their own contribution. It is possible that Poland will become a member of the Eurozone, which would increase requirements regarding public debt. Therefore, local self-government units will choose solutions that will not generate increases in debt levels.

In the opinion of representatives of the Marshal's Office, the average value of a project in the next Programming Period should be about PLN 20 M. The maximum duration of projects and the cost eligibility should not be changed (15 years).

The strength of the current JESSICA initiative, in which UDFs are mainly banks, is that it is possible to use the know-how and expertise of the bank in regards to FI. However, the JESSICA initiative has some limitations. According to a representative of an UDF (Bank Gospodarstwa Krajowego), the interest and implementation expedition of FIs under JESSICA is affected by banking regulations. BGK notes that both national and European legislation on FIs needs to be adapted to the specific challenges of this form of public intervention or changes need to be made in assumptions underpinning the operation of various support instruments. For example, in line with assumptions, JESSICA should support low-revenue generating projects, but with a high social component (i.e. contributing to improving the quality of life in a given area), which is difficult to achieve in practice. Suggestions as of possible approaches to FIs' architecture that might accommodate these challenges have been proposed in the Part I of this Study.

An UDF is required to ensure due diligence in assessing creditworthiness and risk, liable to financial penalties for "lost" loans. Criteria connected with State aid are also a barrier. In addition, the time frame for the use of funds is another impediment. Despite this, a representative of BGK assesses the level of interest in the use of FIs under JESSICA as high. A proposal for eliminating barriers to the JESSICA implementation was also presented. The BGK representative believes that if the use of FIs is to be successful, decisions should be made sufficiently in advance on the initiation of the instrument, so that both the UDFs and investors have time to prepare an investment adequately and gather the own contribution. It is also necessary to ensure formal and legal transparency.

### 2.1.2.3. Funding urban development

The Urban Revitalisation Measure 5.2 received 112 applications for financial support valued at over PLN 840 M. From this group, agreements for financing were signed with 20 projects with a total financial support of more than PLN 184 M. 92 projects were rejected for a total financial support amount of PLN 654 M. 5 key projects were carried out under this measure, for which financial support of PLN 88 M was granted. These are all projects included in the list of key individual projects.

The projects that were included in LRPs, but have not been implemented, include:

Project name	Reason for no implementation
Modernisation of the building at ul. Reja 9 along with the revitalisation of public space and greenery around the Ochota Theatre.	Significant extension of works in the existing building, including the cost of renovation and reconstruction of the building at ul. Reja 9: the necessity of adjusting the scope of works to fire protection regulations contained in the Ordinance of the Ministry of Internal Affairs and Administration of 07.06.2010 on fire protection made it necessary to acquire additional resources and postpone the deadline of the task.
Revitalisation of Plac Starynkiewicza with the modernisation of Skwer Grotowski in order to generate economic recovery of the area by raising the standard of public space and introducing new functions, including tourist functions.	Lack of funds in the budget.

Source: report on LRP activities.

In the Mazowieckie Voivodeship, also in response to the questionnaire, several projects were submitted that have not received external funding so far. The vast majority of investors tried to receive support from

the MVROP 2007–2013. Other institutions from which support was requested include the Voivodeship Fund for Environmental Protection and Water Management, as well as the Ministry of Culture and National Heritage. One project was submitted for which the city of Pilawa applied for funding under the JESSICA initiative.

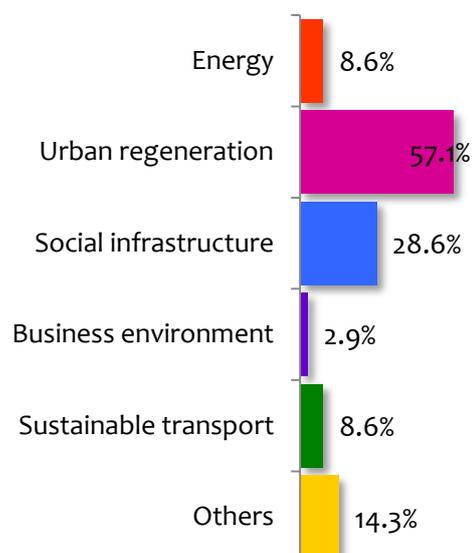
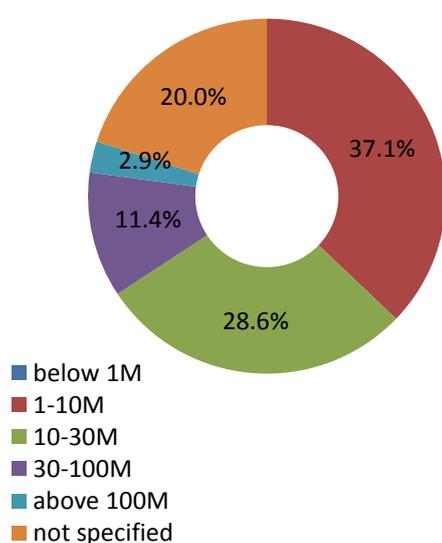
The UDF representative also confirms that not all investment projects submitted in the Mazowieckie Region received funding. The most important reasons are: failure to meet the criteria for public aid, lack of creditworthiness of the investor and the lack of adequate loan security. There were also cases where the beneficiaries, already after submitting applications, resigned from the use of JESSICA instruments due to not fulfilling loan requirements.

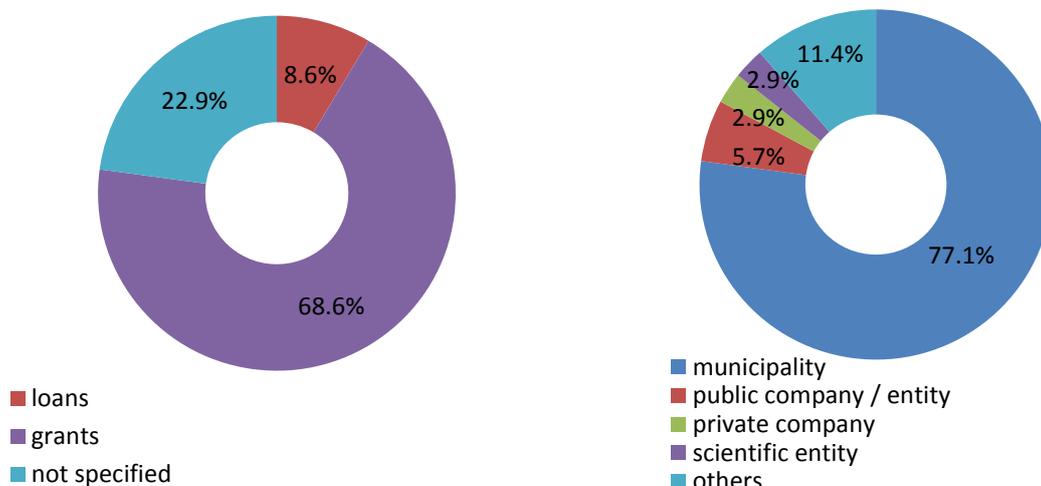
## 2.2. Identification of potential pipeline and Case Studies

### 2.2.1. Identification of potential projects

<b>Number of projects</b>	35
<b>Total value</b>	PLN 618.1 M
<b>Average value</b>	PLN 22.1 M

Distribution of the value of projects	Sector
---------------------------------------	--------





Source: own study based on the Questionnaire.

In Mazowieckie, 35 projects were submitted. In this respect, the Region came in 2nd place among all the Voivodeships that were analysed, after Silesia (36 projects). The total value of submitted projects was PLN 618.1 M, and the average value per project was PLN 22.1 M. There have been a lot of projects submitted in the Region, but with a relatively low value: the budget of one third of them did not exceed PLN 10 M. Local self-government units submitted the vast majority of projects, more than three quarters.

More than half of the projects were connected with the revitalisation of urban areas (57.1%), where the most numerous group were investments for the modernisation of dilapidated buildings. In other key areas, the following percentages were recorded: social infrastructure: 28.6%, energy and sustainable transport: both categories 8.6%, and business support institutions: 2.9%.

For more than two thirds of the projects, the preferred form of financing was non-refundable financing (68.6%). Much less popular were FIs with only a few takers for loans (8.6%).

### 2.2.2. Identified Long List

The presentation of all projects in identified in the Region can be found in Appendix III.

### 2.2.3. Presentation of an Interim list

The presentation of all projects in the Interim List can be found in Appendix IV.

### 2.2.4. Identification of two Case Studies

Project	Beneficiary	Sector	Value (M)
Modernization of the urban lighting	City of Sochaczew	Energy	21
Revitalisation of the Urban Municipal Centre of Culture	City of Pilawa	Urban regeneration / Social Infrastructure	5.5

### 2.2.5. Detailed analysis of two Case Studies

The presentation of two Case Studies analysed in the Region can be found in Appendix V.

### 3. RECOMMENDATIONS & CONCLUSIONS

Potential project demand for FIs in each of four subsectors have been defined for the Mazowieckie as following:

Figure 99: Potential demand for FIs for Mazowieckie

In PLN millions	Energy	Urban	Business Environment	Others	Total
JESSICA-type Equity	135-140 M	170-175 M	60-65 M	-	
JESSICA-type Loans	310-320 M	230-235 M	105-110 M	-	
JESSICA-type Guarantees	110-120 M	55 -60 M	40-45 M	-	
<b>Estimated FI Size</b>	<b>570-575 M</b>	<b>465-470 M</b>	<b>215-220 M</b>	-	<b>1.1 – 1.25 Bn (€255-300 M)</b>
<b>Estimated Co-Investments</b>					<b>1.5-1.7 Bn</b>
<b>Estimated Leverage Factor</b>					<b>2.2</b>

Mazowieckie is the largest, the most populated, the wealthiest and one of the most diversified Regions of Poland. It will be the first Polish Region to move from the ‘convergence’ to ‘competitive’ Region in the next Programming Period. However, this will have implications on the amount of Structural Funds allocated to Mazowieckie, however urban development is envisaged through ITIs for rehabilitation projects. An estimated FI size of PLN 1.1-1.25Bn/€255-300 M is recommended for Mazowieckie based on the market analysis.

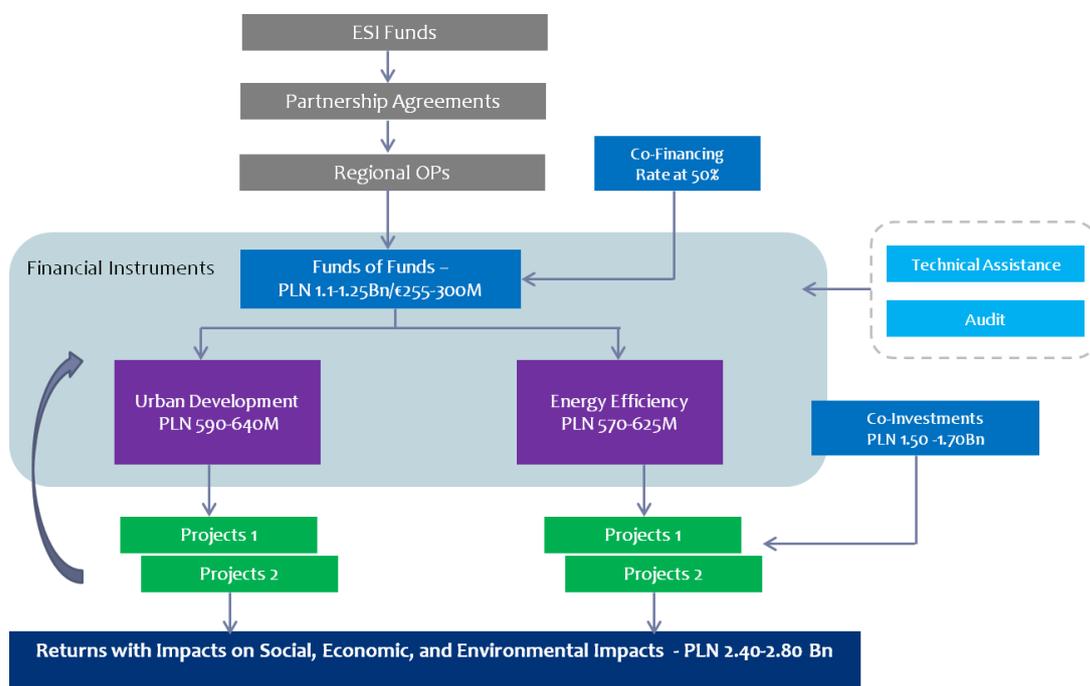
As Mazowieckie established FIs for urban development in 2012, it is possible to set up a **direct implementation of FIs** as oppose to a Funds of Funds structure. This would have to be carefully considered by MAs if there are sufficient human resources and internal capacity to do so.

Based on the Questionnaire and the market analysis as described in detail in Chapter 8 *General Definition of Financial Gap* of Part I of this Study, two areas of intervention should be in particular taken into account and potentially two UDFs could be established.

- **Urban Development** through equity and loans for rehabilitation of urban areas, including revitalisation of housing stock, old buildings and centres, post-industrial and post-military areas and other revitalisation activities in urban centres where *poviats* are located, including Warsaw and sub-regional centres: Radom, Płock, Siedlce, Ostrołęka, and Ciechanów. It is also important to notice that most of urban regeneration projects have been submitted by small- to medium size municipalities, therefore ring-fencing of 50% funds should be allocated towards medium-sized cities.
- **Energy Efficiency** through equity products for energy-related projects. Mazowieckie had a good pipeline of projects in the energy by total value. Projects could include production of energy from renewable sources and thermomodernization of public and residential buildings. Most of projects in this category present revenue generating projects with healthy economic rationale and some of them need mild intervention to help them unlock. In some of cases, mere contribution of initial phase equity (along with the project developer) and FIs mitigating to certain extent the construction and market risks mostly feared by commercial lenders (esp. electricity price and changes in the support system for renewable energy and co-generation).
- Taking into account relatively high potential project demand for FI in the **Business Environment** sector and the Region’s strategic objectives, including its smart specialisation, the implementation of specialised UDF in this sector might be also considered.

As UDFs became operational only in 2012, an alternative suggestion is to keep the existing FI architecture which is similar to the typology outlined above (in addition to the cluster development).

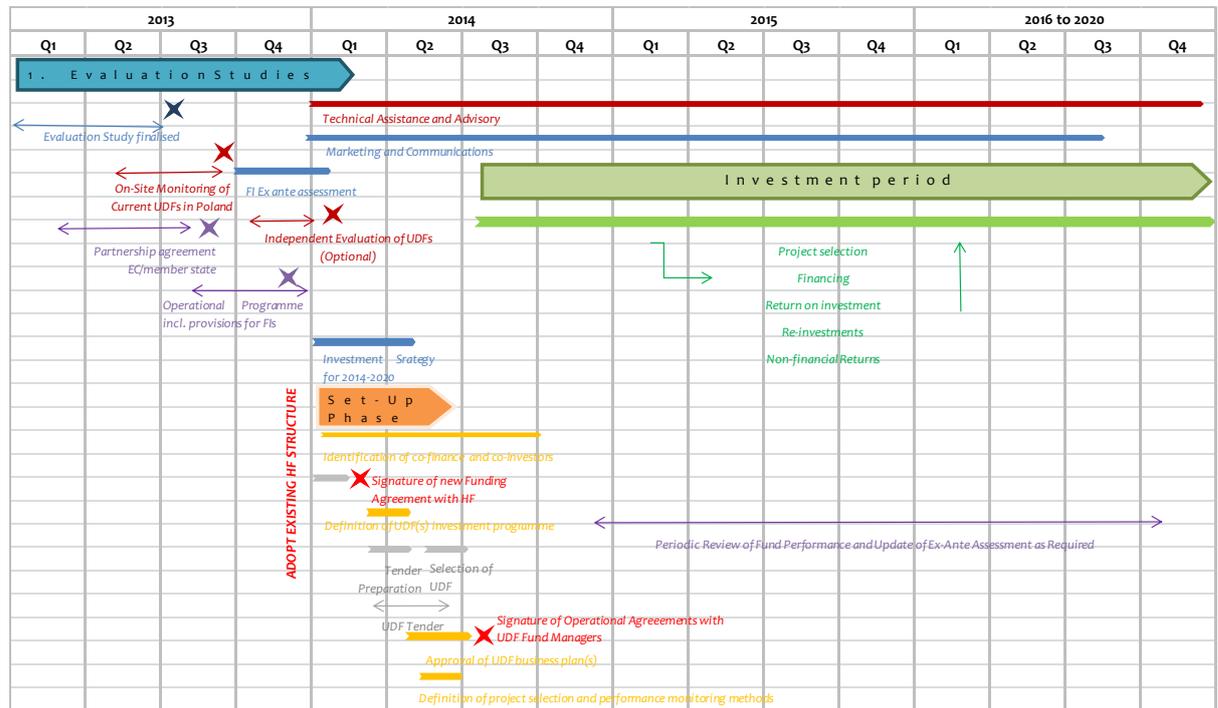
Figure 100: Indicative Organisational Scheme for Mazowieckie



As Mazowieckie is currently implementing JESSICA in the 2007-13 Programming Period with the EIB acting as the Holding Fund manager, it is possible to adopt the existing governance structure for the next 2014-20 Programming Period. In such case, and subject to an ex-ante assessment, allocations from ESI Funds could be transferred to the EIB and in the capacity as the Fund of Funds Manager, the EIB should launch a tendering process for UDF Managers in due course. In doing so, this will significantly reduce the set-up time associated with the procurement process which can take between 6 to 12 months, and enable to the instrument to start making investments into suitable projects as early as mid-2014. Further discussions will be required in due course should Mazowieckie wish to explore this option. The discussion of proposed structures and implementation details have been covered in Part I of this Study in Chapter 7.3 Case Study Conclusions and Chapter 9 Financial gap summary and suggested architecture for Financial Instruments for each Region.

Otherwise, pursuant of Article 38, Mazowieckie can seek a Fund of Funds Manger via a public contract in accordance with applicable public procurement law.

Figure 101: Indicative Implementation Timescale for Mazowieckie



## 1. REGIONAL POLICY CONTEXT

## 1.1. Analysis of the general conditions in Śląskie Region



Area (ths km <sup>2</sup> )	12,333
Population (ths 2011)	4.626.4
Urbanisation ratio*	77.7%
Unemployment rate (2012)	10.2%
Relative average salary** (2011)	104.7%

Source: The Central Statistical Office and Statistical Yearbook of the Śląskie Voivodeship 2012, Statistical Office in Katowice, 2012, Katowice.

\* urban population as percentage of total population

\*\*average monthly gross salary to the national average (Poland = 100)

## 1.1.1. General Presentation and Experience to Date

**Key features and challenges of Region's city areas**

Majority of the population in Śląskie reside in urban areas. Of Poland's 40 most populated cities, 12 are located in the Śląskie Voivodeship, including the regional capital city of Katowice (307 thousands inhabitants<sup>40</sup>). Other important cities in the region include: Częstochowa, Sosnowiec, Gliwice, Bytom, Rybnik, Tychy, Bielsko-Biała.

There are several thousand hectares of post-industrial areas in the voivodeship that require regeneration, representing around one-fifth of all post-industrial areas in Poland. This is primarily the result of extensive coal mining and sand mining in the Śląskie Region. The Śląskie 2020 Strategy aims to have a balanced distribution of economic development by building an advanced knowledge economy focused on innovation, high technology, and professional services. Śląskie has high aspirations to secure a global competitive position with well developed links with their attractive urban and rural surroundings.

As per the Spatial Development Plan for the Śląskie Voivodeship, there are four urban agglomerations, i.e. the Upper Silesian Agglomeration, Częstochowa, Bielsko-Biała, and Rybnik:

- Upper Silesian Agglomeration (or the Upper Silesian Metropolitan Union) incorporating such cities as: Katowice, Bytom, Chorzów, Dąbrowa Górnicza, Gliwice, Jaworzno, Mysłowice, Piekary Śląskie, Ruda Śląska, Siemianowice Śląskie, Sosnowiec, Świętochłowice, Tychy and Zabrze plans to become a competitive metropolitan centre in the region as well as in Europe with an important number of high technologies enterprises and high concentration of innovative services;
- Częstochowa Agglomeration, has plans for the development of the educational and cultural functions with links to the provision of regional public services;

<sup>40</sup> Statistical Bulletin of Śląskie Voivodeship (Biuletyn statystyczny województwa śląskiego) p. 201, tab. 34

- Bielsko-Biała Agglomeration, is well-connected with other cities through inter-regional and regional transport networks and has plans to become the centre of environmentally safe and modern industry, education and a competitive centre tourism and recreation in the south of Poland;
- Rybnik Agglomeration has a well-diversified and modern economic structure including coal production, as well as a developed network of small and medium enterprises in the services and manufacturing sectors<sup>41</sup>.

The polycentric settlement structure and the cooperation within the Silesian Metropolis are considered as key strength of Śląskie Voivodeship. The weaknesses in the region are primarily the degraded industrial districts and city centres requiring urban regeneration, and the lack of a consistent regional plan for urban regeneration. The threats are perceived in: the lack of the legal framework relevant to conurbations; the mismatch between the proposed draft legislation and the expectations of the community forming the agglomeration; and the lack of legal regulations relating to urban regeneration, specifically on post-industrial areas<sup>42</sup>. The Śląskie Voivodeship's opportunities for development include: diversification of its economic structure with high-added value sectors and links with global markets for inward investment potentials and the growing importance of urban policies among regional development policies<sup>43</sup>.

The main developmental challenges the Region's cities face include<sup>44</sup>:

- regeneration of degraded sites and facilities for cultural, educational, recreational and/or other economic functions;
- strengthening of the cooperation in the Private-Public Partnerships to redeveloped degraded areas;
- development and implementation of monitoring and evaluation study for urban regeneration, including, among others, post-industrial, post-mining and post-military areas;
- development of environmental functions of originally degraded areas on which valuable natural ecosystems evolved through spontaneous regeneration;
- amendments of existing or adoption of new legal regulations aimed to facilitate cooperation between self-government units and the private sector, particularly in urban regeneration and revitalisation;
- remediation of brownfield sites including former mines;
- preservation of public spaces of significance in the sub-regional, regional and supra-regional levels;
- regeneration of historic urban structures in the Voivodeship's cities.

### **Experience in using Financial Instruments**

The Śląskie Voivodeship has experience in implementation of FIs via the JESSICA initiative in the 2007-13 Programming Period. As of 30<sup>th</sup> September 2013, 10 projects with total amount of PLN 139.2 M received financing through JESSICA FIs in the Śląskie Region. These include urban regeneration projects such as revitalisation of degraded buildings; and construction of new social functions in the regenerated urban areas. According to the MA, the main advantages of deploying FIs for projects include the following:

<sup>41</sup> Śląskie Voivodeship Development Strategy – Śląskie 2020, p.34

<sup>42</sup> Based on the Śląskie Voivodeship Development Strategy – Śląskie 2020.

<sup>43</sup> ibidem

<sup>44</sup> Ibidem, p.184

- Favourable financing terms and conditions available to project promoters;
- Generally, more thoroughly-thought projects to apply for FIs (which does not always happen in the case of grants); and
- Income generating potential of projects and possibility of re-using FIs in the future.

As part of the fieldwork, beneficiaries who are receiving loans under the JESSICA initiative were asked about their motivations in using FIs. In the case of the investment projects implemented by municipalities, the crucial question was the nature of the planned project, such as the eligibility of projects expected to generate return in the future in combination with the possibility of obtaining favourable loan terms.

In the opinion of beneficiaries, the added value of FIs lies in particular in the favourable interest rates, the tenor and the definition of the eligible project costs offered by the FIs.

In addition to implementing the JESSICA initiative, the Śląskie Voivodeship developed a relatively extensive network of financial intermediaries distributing FIs, particularly among SMEs, including: the network including loan, guarantee and equity (seed capital) funds. The Figure below presents the number of loans and/or guarantees given by selected funds in Voivodeship in 2007-2013.

**Figure 102: Loans and guarantees within ROP Śląskie Voivodeship for 2007-2013, submeasure 1.1.1, given by selected funds in Śląskie Voivodeship as on March 31<sup>st</sup>, 2013<sup>45</sup>**

	Fund's manager	No of loans/ guarantees	Value of loans/ guarantees (M PLN)	Realisation versus planned value of loans/guarantees
1.	Fundusz Górnośląski S.A.	88	32.2	68.89%
2.	Agencja Rozwoju Lokalnego S.A.	49	2.4	106.41%
3.	Agencja Rozwoju Regionalnego w Częstochowie S.A.	22	2.5	57.03%
4.	Śląski Regionalny Fundusz Poręczeniowy	101	11.9	54.33%

### 1.1.2. Description of the Śląskie Region and the key priorities for the Region's development

#### Urban areas in the Region

The key problems of the Region's cities include:

- depopulation,
- degradation of the urban space, and
- the declining quality of public facilities.

The authorities concluded that: "the future of the Voivodeship depends to a great extent on spatial organisation of the development processes of agglomerations performing higher level functions for the entire Voivodeship"<sup>46</sup>. There is a need to undertake actions aimed at increasing the potential of the Silesian Metropolis. It is believed that post-industrial challenges of Silesian cities create a barrier to development of the Region.

#### Key strategic document in the context of urban development

The Śląskie 2020+ Strategy<sup>47</sup> defines four strategic objectives:

- A. Śląskie – the Region of modern economy based on innovation and creativity;

45 Report: Loans/ guarantees activities in Regional Operational Programme of Śląskie Voivodeship for 2007-2013

46 ROP Śląskie Voivodeship 2007-2013, 2011, p.66-67

47 Śląskie Voivodeship Development Strategy – Śląskie 2020+ (Katowice, July 2013), p. 75-108

- B. Śląskie – the Region with a high quality of life based on universal access to high-standard public services;
- C. Śląskie – an attractive Region with functional space;
- D. Śląskie – an open Region and important partner for European development.

The need for regeneration of degraded city areas has been acknowledged in the Strategy. Revitalization of post-industrial areas and buildings, ensuring their availability, improving the quality and attractiveness of public spaces (particularly city centres and shopping districts), and revitalization of residential areas in the old districts are set out in the operational objective C.3 – “High level of space planning and efficient use of space”. According to the Śląskie 2020+ strategy: “Sustainable development also requires the restoration and preservation of spatial order. Areas in the Region are characterized by relatively low quality, lack of consistency, common spatial conflicts and poor quality of landscape”.

The strategic objective C.2: “Integrated development of different level regional centres” is of particular importance for development of Silesian cities. The actions outlined through objective C.2. include:

- Improving transport links through the expansion and modernization of transport infrastructure strengthening functional and spatial relationships, including regional roads and cities’ bypasses;
- Supporting integration through sustainable low-carbon transport, including a variety of means of public transport and infrastructure such as railways, trams, other public transport, airports, traffic control systems, 'park and ride' facilities and cycling infrastructure;
- Supporting development of public transport systems, covering the metropolitan areas and their immediate surroundings, functional local development centres and rural areas;
- Creating and developing new infrastructure and institutions in metropolitan areas and agglomerations that support institutions active in international cooperation networks;
- Supporting the development of local public services;
- Strengthening the development of various functions in rural areas;
- Building partnerships for the integration of intra-function centres on different levels;
- Supporting development of legal and organizational frameworks for the integration and management of metropolitan areas;
- Increasing institutional capacity to manage development on the regional and local levels.

### **1.1.3. Experience in programmes / initiatives focusing on urban development, implemented in the Region**

The key experience relating to involvement in programmes or initiatives focusing on urban development has been the implementation of the Regional Operational Programme for the Śląskie Voivodeship for the years 2007-2013. One of the priorities of that ROP has been sustainable development of cities, with aim of increasing competitiveness of the Voivodeship’s urban space, achieved through the following detailed priority objectives:

- Increasing competitiveness of metropolitan centres,
- Multifunctional use of degraded areas.

The following types of projects are implemented within ROP:

- Construction and refurbishment of public buildings (with cultural, tourism, sports and recreation, and congress functions) suitable for organisation of international scale events, which can contribute to the Region’s metropolitan image;
- Transformation of public spaces characterised by high quality urban and architectural characteristics;
- Construction and expansion of facilities to support higher education as well as strategic infrastructure such as public transport system to establish linkages with the rest of the world; and
- Development of economic zones, particularly in post-industrial sites.

#### 1.1.4. Description of the draft assumptions to new ROPs

##### **Regional Operational Programme for the Śląskie Voivodeship for the years 2014-2020**

The second draft of ROP 2014-2020 was approved by the Management Board on June 25<sup>th</sup> 2013 by the Management Board of Śląskie Voivodeship. The draft budget is very general and indicates percentage values of the EU support to the identified priorities. The tenders for the ex-ante evaluation and strategic environmental assessment have already been closed and the advisors selected.

The document identified areas in which FIs can be used:

- *Energy and Energy Efficiency*

Measures relating to energy have been addressed under Priority IV, *Energy efficiency, renewable energy sources and low-carbon economy* of ROP. The projects implemented under that priority will aim to achieve the following objectives:

- improving efficiency of energy production and consumption,
- increasing production and consumption of energy from renewable sources,
- supporting low-carbon transport.

Forms of support planned under the priority are grants and FIs have not been proposed.

- *Environment*

Priority V, *Protection of environment and efficient use of resources*, will include investments to preserve and improve the environment, enhance the competitiveness of the economy through more efficient use of resources, preserve biodiversity and cultural heritage. The measures are planned to continue activities undertaken in the current Programming Period.

Regarding the improvement of the urban environment, there are plans to continue the use of the JESSICA initiative or similar instruments to support social and territorial cohesion of selected urban areas. The emphasis will be placed on reduction in degradation of selected socio-economic areas.

- *Support for enterprises*

The support planned as the Priority III should be focused on projects aimed at the development of the existing business environment institutions, contributing to increase in the competitiveness of SMEs. Grants are envisaged as the prevailing form of support in this area, however it may be also possible to use FIs to support micro, small and medium-sized enterprises that do not implement innovative solutions.

FIs under Priority VII will focus on supporting businesses in their early development stages.

##### **The use of FIs in the next 2014-20 Programming Period**

There is no priority dedicated to financial engineering under the revised draft on ROP from June 2013. However, it is proposed that FIs are used in the priorities 3, 5 and 7 as described above.

##### **Local Regeneration Programmes**

A review of the Local Regeneration Plan (LRP) for the City of Katowice was undertaken in order to identify projects that can potentially benefit from the use of FIs, in addition to those identified through the Questionnaire. The Local Regeneration Programme for Katowice specifies the actions to be implemented in a specified area of the city up until the year 2018. Total value of the financial resources dedicated to these municipal projects amounts to PLN 1,722 M (for the year 2010). There are 63 projects of the City of Katowice and 38 projects of other entities. These are, among others, the following projects:

Figure 103: Investment projects planned for implementation under LRP for the City of Katowice

Project name	Time of implementation	Value	Investor
Reconstruction of the B and C axes; modernisation of the A axis, the shooting range of the Police Academy in Katowice	2008-2015	PLN 50 million	Police Academy in Katowice
Ceglana Medical Centre	2012-2016	PLN 300 million	GeoMieszkanie Dom Sp. z o.o.
Regeneration and conversion of a group of buildings, the Old Station in Katowice at Dworcowa Street; adapting them for combined retail trade and services, and public transport functions	2013-2016	PLN 90 million	EUROSTAR REAL ESTATE Sp. z o.o.
“Ogrody Nauki” [The Gardens of Science] Office and Training Centre Building	2013-2018	PLN 150 million	KAMSOFT S.A.
Reconstruction of the downtown area of the City of Katowice	2005-2014	PLN 304 million	City of Katowice
The communication layout for the zone housing the New Silesian Museum, International Congress Centre and the seat of the Polish National Radio Symphony Orchestra in Katowice buildings, now under construction	2008-2014	PLN 160 million	City of Katowice

Source: LRP for the City of Katowice

The Reconstruction of the downtown area of the City of Katowice Project is now under implementation, with its Phase III just commenced. Funding for the project from the EU funds, the municipal budget, Polish State Railways, Silesian Tramways PLC, Centrum Development and Investments Poland.

Municipal Revitalisation Programme for Częstochowa has been updated in 2012. It includes the tasks planned for revitalisation until 2015 that will be financed by the programme partners, with participation from external sources, also under the JESSICA Initiative. It is planned to implement i.e. the following investments:

- Reconstruction of the printing house at 2 Waszyngtona Street Pro Invest – PLN 12 M
- Renovation of a medical centre building 42/48 Łukasieńskiego Street - NZOZ „Zdrowie” – PLN 2 M
- Adapting post-military buildings for social, educational and training purposes – Main School of Fire Service in Częstochowa – PLN 5.2 M
- Renovation of industrial facilities – Mielczarskiego Street 21/23 - KMA POLAND Sp. z o.o. - PLN 8 M
- Development of the Złota Góra Theme Park – creation of a Culture Sports and Leisure Centre -MTK MORION Sp. z o.o. – PLN 10 M
- Centre for Family Sports and Leisure, 12 Drogowców Street - HOTEL SCOUT – PLN 15 M
- Culture and Business Centre PLATON – Regional Development Agency in Częstochowa – PLN 15 M
- Revitalising a tenement house at 30 Garibaldi Street in Częstochowa – Biedron Nieruchomości Sp. z o.o. Sp.K. - PLN 15 M

In case of Gliwice, the most current document on revitalisation is the *Programme for Revitalising Post-Industrial, Post-military, Post-State Farm Areas in Gliwice* developed in 2012. It presents projects investments that meet the conditions for receiving financing under JESSICA, as for example:

- Construction of a warehouse with an education space and a laboratory - Silesian Logistics Centre - PLN 25 M
- Revitalisation of an old Water Tower together with management of the adjacent area - Water Tower Sp. z o.o. - PLN 20 M
- New Gliwice – continued – regeneration of „Nowe Gliwice” post-industrial zone. Development of 7.5 ha of the area and making it accessible to investors from the new technologies industry - Agencja Rozwoju Lokalnego Sp. z o.o – PLN 5.8 M

It is our understanding that the projects mentioned above will be looking to receive financing from UDF still in the current Programming Period. However, should the project development delay or extend beyond 2014, the projects might form additional potentially feasible investments in the pipeline for the new Programming Period 2014-2020.

### **1.1.5. Smart Specialisation Strategy**

Regional specialisations are described by the Regional Innovation Strategy for Śląskie Voivodeship 2013-2020<sup>48</sup>. The key regional specialisations include:

- Power engineering,
- Medicine / healthcare and
- Information and communication technologies.

Several projects submitted in a Questionnaire conducted as part of this Study, as described in detail in Chapter 6 *Financial Instruments – Questionnaire summary* and Chapter 7 *Case Study experience*, refer to the key regional specializations as defined above.

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<sup>48</sup> <http://ris.slaskie.pl/files/zalaczniki/2012/12/21/1356089359/1356089454.pdf>

## 2. FINANCIAL INSTRUMENTS & CASE STUDIES

### 2.1. Identification of supply and demand, including previous market failures

#### 2.1.1. Supply side

##### 2.1.1.1. Description of the FIs currently available in the Region

In 2012, 10 loan funds, 6 guarantee funds, 4 seed capital funds and 3 business angel networks<sup>49</sup> operated in the Śląskie Voivodeship.

Figure 104: Key players in the regional FI market

<b>10</b>	<b>Loan funds</b>	<b>Guarantee funds</b>	<b>6</b>
	<ul style="list-style-type: none"> <li>• Bielskie Centrum Przedsiębiorczości (an enterprise development centre)</li> <li>• Fundusz Rozwoju Przedsiębiorczości (an enterprise development fund)</li> <li>• Fundusz Pożyczkowy</li> <li>• Górnośląska Agencja Przekształceń Przedsiębiorstw (an enterprise restructuring agency)</li> <li>• Górnośląska Agencja Rozwoju Regionalnego (a regional development agency)</li> <li>• Fundusz Górnośląski</li> <li>• Rudzka Agencja Rozwoju "Investor" (a local development agency)</li> <li>• Agencja Rozwoju Lokalnego S.A. (a local development agency)</li> <li>• Fundusz Pożyczkowy przy Agencja Inicjatyw Lokalnych Sp. z o.o.</li> <li>• Fundusz Pożyczkowy przy Agencji Rozwoju Przedsiębiorczości S.A.</li> </ul>	<ul style="list-style-type: none"> <li>• Bielski Fundusz Poręczeń Kredytowych</li> <li>• Fundusz Poręczeń Kredytowych przy Centrum Przedsiębiorczości Sp z o.o.</li> <li>• Fundusz Poręczeń Kredytowych Sp z o.o.</li> <li>• Śląski Regionalny Fundusz Poręczeniowy</li> <li>• Agencja Rozwoju Lokalnego (a local development agency)</li> <li>• Fundusz Poręczeniowy Miasta Zabrze</li> </ul>	
<b>4</b>	<b>Seed capital funds</b>	<b>Business angel networks</b>	<b>3</b>
	<ul style="list-style-type: none"> <li>• Technobit Venture</li> <li>• Akcelerator Technologiczny Gliwice [Technology Accelerator Gliwice] - Launch of innovative commercial projects using capacities of the light aviation industry</li> <li>• Capital Fund for innovation in energy conservation</li> <li>• Internet Ventures</li> </ul>	<ul style="list-style-type: none"> <li>• Śląska Sieć Aniołów Biznesu SiłBAN</li> <li>• Secus Wsparcie Biznesu</li> <li>• Ponadregionalna Sieć Aniołów Biznesu - Innowacja</li> </ul>	

Source: *Ośrodki Innowacji i Przedsiębiorczości w Polsce 2012 – raport końcowy* (Centres of Innovation and Entrepreneurship in Poland 2012 – Final Report), Association of Organisers of Innovation and Entrepreneurship Centres in Poland, Warsaw 2012

<sup>49</sup> *Ośrodki Innowacji i Przedsiębiorczości w Polsce 2012 – raport końcowy* (Centres of Innovation and Entrepreneurship in Poland 2012 – Final Report), Association of Organisers of Innovation and Entrepreneurship Centres in Poland, Warsaw 2012.

### 2.1.1.2. Guarantees

In 2010, the combined guarantee capital of the guarantee funds operating the Śląskie Voivodeship stood at PLN 48.8 M. This has not been absorbed fully; its funds utilisation rate of 80% being one of the lowest among all the voivodeships of Poland<sup>50</sup>.

#### The Silesian Regional Guarantee Fund

Śląski Regionalny Fundusz Poręczeniowy (Silesian Regional Guarantee Fund) was established with the mission of supporting SMEs. The fund was agreed on 1 December 2000 by Fundusz Górnośląski S.A. and Bank Gospodarstwa Krajowego. It issues guarantees for financing obtained by enterprises of the Śląskie Voivodeship from external sources. The primary operational objective of the Fund is to support the development of microenterprises, and small and medium enterprises. The maximum available single guarantee value stands at PLN 1 M. The Silesian Regional Guarantee Fund provides guarantees for projects implemented in the current ROP under the project heading of “Facilitating access to financing enterprise operations in the Śląskie Voivodeship through the financial support of the Silesian Regional Guarantee Fund”.

### 2.1.1.3. Loans

As per the data published by the Polish Loan Funds Association<sup>51</sup>, in 2010 Śląskie loan funds issued loans in the amount of PLN 32.9 M. In the same year, total loans outstanding in the Region amounted to PLN 49.3 M<sup>52</sup>.

### 2.1.1.4. Equity

There are 4 seed capital funds operating in the Region, of which 2 focus on provision of support for projects representing specific sectors: light aviation (initiation of innovative business ventures economic using the capacities of the light aviation industry), energy conservation (capital for innovation in energy conservation), internet technologies (internet ventures). Investments of the other two funds (Technobit Venture and the Technology Accelerator Gliwice) span various business sectors. Moreover, 3 business angel networks operate in the Śląskie Voivodeship: Śląska Sieć Aniołów Biznesu SiIBAN, Secus Wsparcie Biznesu and Ponadregionalna Sieć Aniołów Biznesu – Innowacja.

#### Capital Fund for innovation in energy conservation

The Capital Fund for innovation in energy conservation is a project implemented by the Euro-Centre Science and Technology Park under Measure 3.1. of the Innovative Economy Operational Programme. This equity project aims to assist in development of innovative ideas, particularly in the fields of energy conservation and renewable energy sources. The support involves incorporation of new enterprises and assistance in capital raising. The Fund’s activity also includes, among others: provision of advisory and coaching services; making available technologies and the essential machine park infrastructure; and equity support (up to EUR200,000 equivalent). To date, the Fund has invested, among others, in: Kostka & Paszkowski SKA (glass walls and windows for energy efficient buildings); Energene (research in new bio-energy species of plants), Planergia (IT platform for the power sector).

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<sup>50</sup> *Raport o stanie funduszy poręczeniowych w Polsce – stan na dzień 31.12.2010r.* – raport końcowy (Report on the condition of guarantee funds in Poland – status as at 31 December 2010 – Final Report), Krajowe Stowarzyszenie Funduszy Poręczeniowych, PAG/Uniconsult, Warsaw 2011.

<sup>51</sup> [www.pzfp.pl](http://www.pzfp.pl)

<sup>52</sup> *Diagnoza stanu sektora funduszy pożyczkowych w Polsce według stanu na 31.12.2010r.* – raport końcowy (Diagnosis of the condition of the loan funds sector in Poland, as of 31 December 2010 – Final Report), A. Alińska, Warsaw 2011.

## 2.1.2. Demand side

### 2.1.2.1. Prevailing urban development project typologies that could be eligible for JESSICA financing

A total number of 36 projects were submitted in Śląskie as a response to the Questionnaire, conducted as part of this Study, as described in detail in Chapter 6 *Financial Instruments – Questionnaire summary* and Chapter 7 *Case Study experience* that was the highest score among all Regions.

Within the key sectors of investment supported through the JESSICA programme, the expected uptake will be as follows: 18 projects in regeneration of urban areas; 11 projects in social infrastructure; 5 projects in energy and business support institutions 4 projects. Approximately half of the projects were submitted by territorial self-government units (18).

**Figure 105: Number of projects by sectors and subsectors**

<b>18</b>	<b>Regeneration of urban areas</b>	<b>Energy</b>	<b>5</b>
10	Regeneration of post-industrial and post-military sites	Energy efficiency	2
		Waste management	0
		Photovoltaic	3
3	Comprehensive refurbishment of run-down buildings	Other renewable energy sources	1
		District heating	0
8	Other	Other	0
<b>11</b>	<b>Social infrastructure</b>	<b>Business support institutions</b>	<b>4</b>
1	Schools and nurseries	Research and development / innovation	0
0	Hospitals and long-term care	SMEs	0
2	Social and council housing	Business incubators and technology parks	4
4	Public buildings		
5	Other	Other	0
<b>0</b>	<b>Sustainable transport</b>	<b>Other</b>	<b>5</b>

Source: Proprietary work, derived from the Questionnaire

Note: some projects have been classified into more than one category, and hence the sum of projects after counting all categories exceeds the total number of submitted projects.

The Marshal's Office sees no need for expanding the thematic range of the projects eligible for implementation of FIs via the JESSICA initiative in the next 2014-20 Programming Period. One view provided in the consultation suggested that the thematic range could more focused, however, without providing any specific recommendation as to which of the project typologies could utilise FIs. At the same time, the interviewees stressed that the projects should deliver specific economic benefits for specific geographical areas as part of the investment agreement.

The thematic areas for which the use of FIs could be relevant, include:

- Infrastructure for tourism;
- Urban regeneration;
- Research and development (projects at the phases of commercialisation of research results and/or technology transfer); and
- Energy efficiency.

In the opinion of the representatives of the Marshal's Office, non-refundable financing instruments should be used in the case of non revenue-generating projects (a category in which they included integrated urban regeneration and water and sewerage system projects, and projects focusing on regeneration of

areas located within environmental protection zones). Whereas, FIs should be used specifically in projects focusing on tourism, and in revenue generating projects, such as regeneration of degraded buildings and their designation for commercial purposes (cinemas, recreational complexes). The representatives of Marshal's Office stated that the benefits from combined financing (grants together with FIs), which can be used, e.g. in energy efficiency (thermo-modernisation) and public transport projects.

The beneficiaries interviewed pointed out to the following issues and thematic areas, which should be addressed in the next Programming Period:

- all post-industrial areas and industrial areas should be eligible for support;
- the support should also be available to areas inhabited by the population employed in industrial plants under liquidation as those areas will soon require regeneration interventions;
- worth considering are renewable energy use projects (e.g. in conjunction with renovation of housing estates);
- taking into account the specific character of the Region, the support should be available for projects focusing on redevelopment of scarps, slag and mine soil heaps, and post-mining shafts, which can be designated as playgrounds, ropes courses, or other recreational areas.

The beneficiaries also brought to our attention the possibility of including in the programme of small housing estate level projects, such as establishment of monitoring systems. These are non-revenue generating projects, but by preventing acts of vandalism could potentially save costs and gains in public administration efficiency.

#### **2.1.2.2. Appetite of final recipients (including municipalities) for the use of FIs in urban development**

Majority of the potential beneficiaries have declared their interest in using in the next Programming Period FIs equivalent to those made available within the current JESSICA initiative. The interviews with representatives of UDFs and the Marshal's Office indicated that FIs are currently of greater interest among enterprises than among territorial self-government units. It should also be noted that the Questionnaire results indicate potentially high interest in these instruments among public entities, because 64% of all respondents were local government administrations and/or their municipal utility companies.

In the Śląskie Voivodeship, the Marshal's Office conducted a Questionnaire of demand for all the available instruments, including also the FIs, with the next Programming Period in view. The respondents preferred grants and subsidies to FIs. One of the respondents concluded that the use of FIs to support urban projects would be feasible only if that there were no grants earmarked for such investment. Acknowledging the greater emphasis on the use of FIs to support thematic objectives in the next Programming Period, the representatives of the Marshal's Office noted there would be a need to capitalise on the existing knowledge gained from the implementation of FIs in the current Programming Period. Given this, the representatives of the Marshal's Office suggested active dissemination of information and promotional initiatives, e.g. conferences or press articles, in addition to providing training and workshops. Furthermore, representatives also attributed high importance to discussions with specific cities, which could be interested in implementing urban projects.

The present beneficiaries cited diverse motives for their decisions to finance projects under FIs. In the case of municipalities, the decisive factors were either the nature of the planned project (a revenue generating regeneration project included as part of the LRP implemented in the City of Tychy) or financial considerations, where in the case of implementation of a project by City of Świętochłowice, financing under the JESSICA initiative offered the most favourable terms.

Interest of private enterprises in FIs was driven by project eligibility and consistency with regional strategies. The strongest incentive was the possibility it offered of implementing a large scale project (of ca. PLN 20 M); as a subsidy did not offer a sufficient level of financial support. Moreover, the loan interest and tenor, the cost eligibility criteria and the possibility of taking advantage of a principal repayment grace

period of up to 2 years offered with the instrument also proved to be interesting from the perspective of enterprises.

The Questionnaire indicated that grants are the preferred form of financing for most of projects (23 projects). As measured relative to other Regions, the Śląskie declared high interest in FIs; both loans (8) and equity instruments (4). The use of FIs was under consideration with the following types of investments: urban regeneration (8) in the case of loans; and urban regeneration (1), energy (2) and social infrastructure (2) in the case of equity instruments.

**Figure 106: Demand among sectors for respective Financial Instruments**

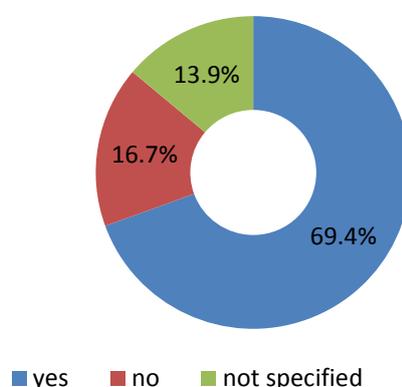
Sector	Equity instruments	Loan	Guarantee	Grant	No response	Total
Regeneration of urban areas	1	8	0	8	1	18
Energy	2	0	0	3	0	5
Social infrastructure	2	0	0	8	1	11
Business support institutions	0	0	0	4	0	4
Sustainable transport	0	0	0	0	0	0
Other	0	0	0	5	0	5

Source: Proprietary work, derived from the Questionnaire

Note: Some of the projects have been classified into more than one category, hence, the sum total of projects in all the categories is greater than the total number of submitted project proposals.

In addition, it should be emphasised that more than two-thirds of the respondents declared their intention of using FIs if these were to be the only form of support available in the next 2014-20 Programming Period (69.4%); the highest positive response rate among respondents of all the Regions. Only 16.7% ruled out such a possibility.

**Figure 107: Interest in FIs if they were the only form of financing for projects available in the 2014-2020 Programming Period**



Source: Proprietary work, derived from the Questionnaire

Figure 108: Demand among beneficiaries for respective Financial Instruments

Beneficiary type	Equity instruments	Loan	Guarantees	Grant	No response	Total
Territorial self-government units	2	3	0	13	0	18
Public sector companies	2	1	0	2	0	5
Private sector companies	0	4	0	0	0	4
Research institutions	0	0	0	0	0	0
Other	0	0	0	8	1	9
<b>TOTAL</b>	<b>4</b>	<b>8</b>	<b>0</b>	<b>23</b>	<b>1</b>	<b>36</b>

Source: Proprietary work, derived from the Questionnaire

The representatives of UDFs whom were interviewed stated that the interest of potential beneficiaries in the Region in implementation of projects using FIs was high, and that the key beneficiaries would be the enterprises, with the territorial self-government units engaging only somewhat later on. There were no JESSICA application process related resignations in the Śląskie Voivodeship. However, there were cases where because of thematic incompatibility with the JESSICA initiative assumptions some applications were rejected at the formal evaluation stage.

According to the representatives of the Region's cities, the factor that encouraged to implementation of projects involving the use of FIs is the local governments' habit of availing themselves of subsidies in implementation of projects forming part of the Regional Operational Programme. According to the respondents, introduction of new instruments represents for them an interesting challenge, which will additionally enable the municipalities to prepare themselves for implementation of projects under conditions of limited subsidy funding. As other factors attractive to municipalities they mentioned the favourable lending conditions: no commission fees, partial loan repayment cancellation, and the long tenors.

The representatives of Marshal's Office also pointed out the weaknesses and strengths of the initiative, such as having bank acts as the UDF manager as well as on the requirements that should be imposed on UDFs in order to incentivise them to invest in projects that meet on the one hand its revenue-generating projects as well as achieving broader socio-economic outputs. One of the strengths of selecting banks as UDF manager is their experience in loan origination, as these are the services banks specialise in. As a weakness, respondents pointed out the limited awareness of the Region's needs and priorities. Therefore, the banks do not always have sufficient knowledge on policy to make investment decisions based on regional needs. There is a view that UDFs should co-operate closely with the Marshal's Office in the project selection process.

The Marshal's Office proposed adding financial penalties for underutilisation of funds to incentivise UDFs to work hard for effective appropriation of the available funds. More effective use of funds could also be ensured by motivating territorial self-government units and other beneficiaries to reach for JESSICA instruments. Another suggestion related to streamlining of the administrative procedures, including those relating to the state aid issue. Furthermore, the issues of VAT obligation treatment should be further organised and simplified. Finally, to the extent possible, the system should allow electronic case handling.

In assessing prospects of absorption of FIs by projects in the Region, the respondents stressed the significance of project financing terms and conditions. Some respondents suggested that debt service will not be an excessive burden to the local government budget if the tenor of loan principal repayment is set

at 5 years and interest offered at 1%. The only problem could be at the point of the decision whether such loans should count toward a given unit's debt. In the Marshal's Office assessment, should subsidies be withdrawn, the FIs offered within the framework of JESSICA could prove to be attractive. The regional officials also voiced their strong support for the proposal of allowing combining FIs with other forms of financing, e.g. grants of ESF or of various regional and national programmes.

### 2.1.2.3. Funding urban development

The first competitive procedure conducted in respect of Measure 6.2.2, Urban regeneration – small cities, yielded 59 applications with total requested financial support exceeding PLN 331 M. Agreements were signed with 19 beneficiaries with total awarded financial support in an amount of over PLN 111 M. This means that 40 projects applying in total for financial support of PLN 221 M were rejected. The second competitive procedure yielded 8 project applications with total requested financial support of over PLN 13 M. Within that cohort, 6 projects were awarded financial support in a total amount of over PLN 5 M. The rejected projects applied for PLN 8 M of financial support.

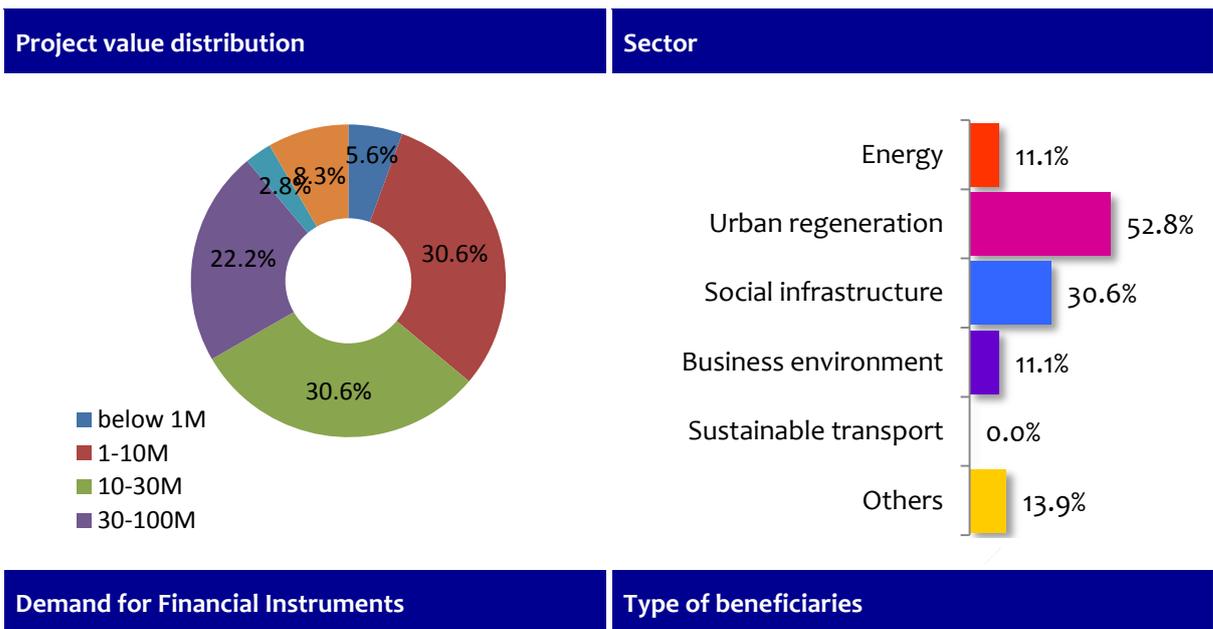
The rejected projects included, among others, urban regeneration investments such as: Regeneration of the historic centre of the City of Sławków – Phase I; Regeneration of the urban farmers market in Kłobucko; or Żareckie Jarmarki - modernisation of the urban farmers market – Phases II and III. All these could not be granted financial support because of depletion of the funds allocated under Measure 6.2.2. Also, the Regeneration of municipal housing project (in Gliwice) did not obtain support because of liquidation of the National Housing Fund.

The interviewees also pointed to another form of financing competitive vis-à-vis the JESSICA instrument: participation of commercial entities in financing municipal projects. The topic that came up naturally in that context was that of Public Private Partnerships. One observation made was about the lack of projects implemented in that formula of cooperation. According to the interviewees, insufficient understanding of the mechanisms of PPP project operation had discouraged potential participants from undertaking such cooperation; true of both the public institutions and the private entities.

## 2.2. Identification of potential pipeline and Case Studies

### 2.2.1. Identification of potential projects

<b>Number of projects</b>	36
<b>Total value</b>	PLN 813.9 M
<b>Average project value</b>	PLN 22.6 M



Source: Proprietary work, derived from the Questionnaire

A total of 36 projects were identified in the Śląskie Voivodeship: the highest number among the 9 researched voivodeships. Total budget of those projects stood at PLN 8139 M. Average single project value was PLN 22.6 M, one of the lowest registered in all the studied Regions. More than half of those projects (52.8%) were submitted by territorial self-government units. Other numerous groups of the interested entities included: public sector companies (11.1%) and private sector companies (11.1%).

Slightly more than half of the notified projects involved regeneration of urban areas (52.8%), which group included mostly regeneration of post-industrial and post-military sites. Interest registered in the other key areas of support of the JESSICA programme was as follows: social infrastructure – 30.6% of the projects; energy – 11.1%; and business support institutions – 11.1%. The “other” category encompassed 13.9% of the notified projects, and included primarily environmental protection related investment projects.

In the case of nearly two-thirds of the projects, non-refundable support was indicated as the preferred form of financing. However, a substantial percentage of those interested also declared their interest in loans and equity instruments: 22.9% and 8.6% of the respondents respectively.

### 2.2.2. Identified Long List

The presentation of all projects in identified in the Region can be found in Appendix III.

### 2.2.3. Presentation of an Interim list

The presentation of all projects in the Interim List can be found in Appendix IV.

### 2.2.4. Identification of three Case Studies

Project	Beneficiary	Sector	Value (PLN M)
Construction of Multicentre Cieszyn	AMG Development Sp. z o.o.	Urban regeneration	70
Regeneration of cultural heritage - Children's Theatre in Bedzin and historic mine 'Saturn' in Czeladź	Gmina Czeladź	Social Infrastructure / Urban regeneration	49
Integrated area development program for former Hard Coal Mine „Szombierki”/„Krystyna”	Armada Development	Urban regeneration	35

### 2.2.5. Detailed analysis of two Case Studies

The presentation of three Case Studies analysed in the Region can be found in Appendix V.

### 3. RECOMMENDATIONS & CONCLUSIONS

Potential project demand for FIs in each of four subsectors have been defined for Śląskie as following:

Figure 109: Potential demand for FIs for Śląskie<sup>53</sup>

In PLN millions	Energy	Urban	Business Environment	Others	Total
JESSICA-type Equity	110-120 M	255-260 M	85-90 M	5 M	
JESSICA-type Loans	260-265 M	345-350 M	145 – 150 M	5 M	
JESSICA-type Guarantees	95-100 M	80-100 M	55-60 M	0-5 M	
<b>Estimated FI Size</b>	<b>475-480 M</b>	<b>690-700 M</b>	<b>295-300 M</b>	<b>10-15 M</b>	<b>1.25-1.50 Bn (€300-355 M)</b>
<b>Estimated Co-Investments</b>					<b>1.85-2.0 Bn</b>
<b>Estimated Leverage Factor</b>					<b>2.3</b>

Śląskie currently uses FIs to support urban development focusing on post-industrial revitalisation of degraded areas. It is not surprising that major of projects submitted were under post-industrial urban regeneration. Based on the analysis, it is recommended that Śląskie continues focusing on this investment typology in the next 2014-20 Programming Period. For Śląskie, a FI of PLN 1.25- 1.45Bn/€300-355 M is estimated.

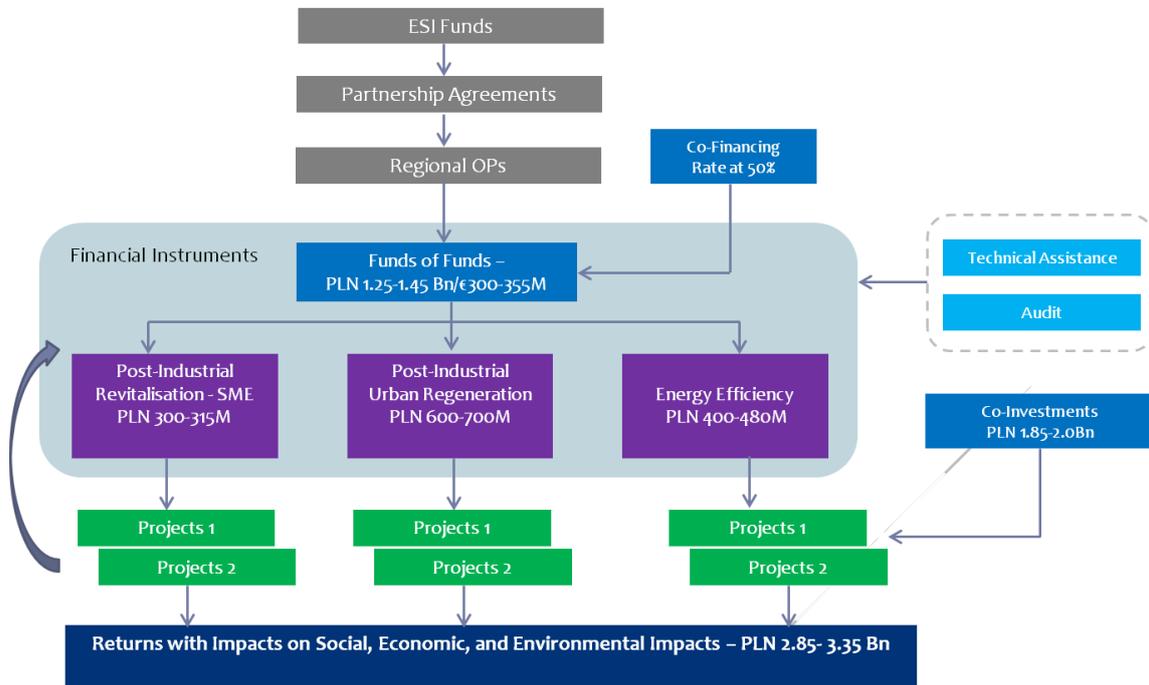
Given the knowledge, experience, and expertise gained from implementing FIs in the 2007-2013 Programming Period, one possibility is to continue with the existing Holding Fund structure currently used in Śląskie and allocate funds from 2014-2020 ESIF contribution (subject to an ex-ante assessment).

The Region might theoretically transfer the management of the current FI structure to the MA and deploy a direct implementation with multiple UDFs. This would have to be carefully considered by MAs if there are sufficient human resources and internal capacity to do so. The implementation might follow similar investment strategy as the current one focusing on post-industrial urban regeneration. This allows for risk diversification. Alternatively, based on the Questionnaire and the market analysis as described in detail in Chapter 8 *General Definition of Financial Gap* of Part I of this Study, a slight modification could include following areas of intervention with sector dedicated areas:

- **Post-Industrial Revitalisation for business environment and SMEs support** through offering loans and equity – this approach is in line with the ROP for Śląskie in 2014-2020, the highest priority is strengthening competitiveness and innovation to support economic development. Projects to support this objective could include construction and expansion of infrastructure supportive to technology transfer between science and business, technology parks and industry clusters.
- **Post-industrial Revitalisation for urban development** through offering loans and equity. Many projects submitted in Śląskie were focused revitalisation of historic mines and other post-industrial degraded areas for tourism, culture and arts, and leisure centres, which are aligned with the Region’s aim to improve tourism infrastructure and diversify from traditional disadvantage of the Region seen as a hard-industry polluted area.
- **Energy Efficiency** is recommended due to the high project value of projects in this sector and the fact that Śląskie is heavily polluted resulting from heavy industry and extensive coal mining and sand mining in the Region. Additional market opportunity could be created by street lighting, waste-to-energy and small-scale district heating projects.

<sup>53</sup> The methodology of assessment of potential project demand has been described in detail in Part I Chapter 8 *General Definition of Financial Gap* of this Study.

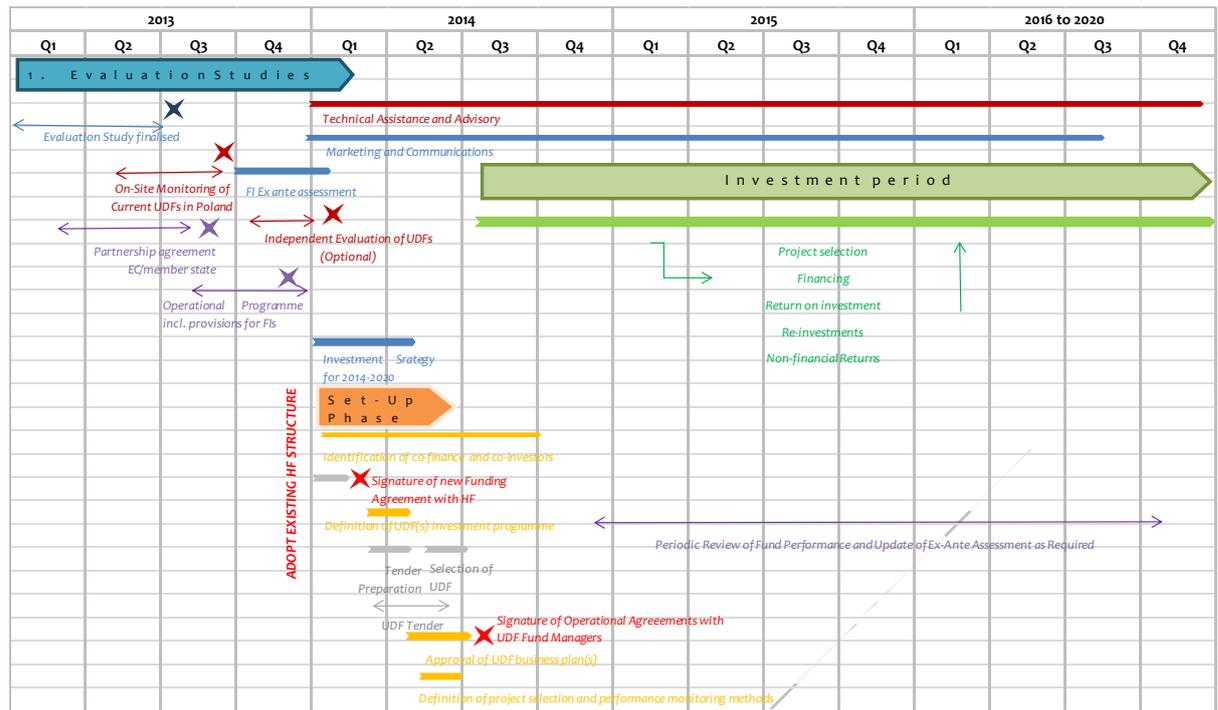
Figure 110: Indicative Organisational Scheme for Śląskie



As Śląskie is currently implementing JESSICA in the 2007-13 Programming Period with the EIB acting as the Holding Fund manager, it is possible to adopt the existing governance structure for the next 2014-20 Programming Period. In such case, and subject to an Ex-Ante Assessment allocations from ESI Funds could be transferred to the EIB and in the capacity as the Fund of Funds Manager, the EIB should launch a tendering process for UDF Managers in due course.

In doing so, this will significantly reduce the set-up time associated with the procurement process which can take between 6 to 12 months, and enable to the instrument to start making investments into suitable projects as early as mid-2014. Further discussions will be required in due course should Śląskie wish to explore this option. Otherwise, pursuant of Article 38 CPR, Śląskie Region can seek a Fund of Funds Manger via a public contract in accordance with applicable public procurement law.

Figure 111: Indicative Implementation Timescale for Śląskie



## 1. REGIONAL POLICY CONTEXT

## 1.1. Analysis of the general conditions in Świętokrzyskie Region



Area (ths km <sup>2</sup> )	11,710
Population (ths 2010)	1,266
Urbanisation ratio*	45 %
Unemployment rate (2012)	14.9%
Relative average salary** (2011)	86.6

Source: The Central Statistical Office

\* urban population as percentage of total population

\*\*average monthly gross salary to the national average (Poland = 100)

## 1.1.1. General Presentation and Experience to Date

## Key features and challenges of Region's city areas

The Świętokrzyskie Voivodeship is one of the least urbanised Regions of Poland. According to the Regional Operational Programme, "The urban grid is relatively well-distributed throughout the area, however with a lower density than it is on the national scale. The density of villages, on the other hand, is above average."<sup>54</sup> The key advantages of the towns of the Świętokrzyskie Voivodeship:

- a strong poly-centric growth pole of the Kielce sub-region,
- the diversified functional structure of Kielce and the growing potential of the emerging Kielce Metropolitan Area,
- existence of external functions that are important to regional development in mid-sized towns.

One of the major challenges for Świętokrzyskie Voivodeship is the changing demographics characterised by low urbanisation as well as low population density. It has experienced negative population growth in recent years, combined with low economic activity resulting from outward migration of skilled labour. The average unemployment rate is higher than the Polish average.

Opportunities for the Region include the development of metropolitan functions in Kielce and its interconnection with urban centres, and the continued diversification of the functional structure of larger cities in Poland. The focus is developing Kielce as a major economic and employment centre of the entire voivodeship, both directly and indirectly.

There is a threat, however, arising from other areas of the voivodeship (and its southern part in particular) that continue to deteriorate. Also the increasingly scattered development and poor coverage of communes by local spatial development plans pose threats to the development of the Region.

<sup>54</sup> ROP for Świętokrzyskie Voivodeship 2007–2013, 2008, p.11

## Experience in using Financial Instruments

The Region is currently not involved in the implementation of JESSICA and JEREMIE initiatives. In the 2007-13 Programming Period, regeneration projects have been financed by the Regional Operational Programme in the form of grants.

### 1.1.2. Description of the Świętokrzyskie Region and the key priorities for the Region's development - regional / local strategies and investment needs

#### Urban areas in the Region

The settlement pattern of the Region comprises 30 towns and 2,832 villages. The urban grid is characterised by population density lower than that of the entire country. Only 45.5% of the voivodeship population inhabits towns (ranking 15), while the average urbanisation ratio in Poland is 16 points higher at 61.4%. 6.2% of the regional population live in towns with populations under 10,000; 13.1% – 10,000–50,000; 9.9% – 50,000–100,000; and 16.2% – over 200,000 (Kielce).

The most populated city in Świętokrzyskie is the regional capital city of Kielce (203.8 thousands inhabitants). Other cities of regional importance are: Ostrowiec Świętokrzyski, Starachowice, Jędrzejów, Końskie and Sandomierz. Over the past decade, the Region has experienced significant demographic changes: outward migration of young people and an aging population. On the other hand, according to the research conducted in 2012, county Kielce (powiat) represents high investment attractiveness and received the class A grade for all key areas analysed.<sup>55</sup>

Most of the urban centres, relative to the entire voivodeship, there are a substantial number of people employed in industry sector, located within the area of the former Old-Polish Industrial Region. The Region has a strong tradition of the machine-building and steel industry, as well as mining and processing of minerals (production of lime, cement, aggregates).<sup>56</sup>

Additionally, Kielce established cooperation with neighbouring communes in order to form the Kielce Metropolitan Area through a memorandum signed by Kielce, Chęciny, Daleszyce, Górnio, Masłów, Miedziana Góra, Morawica, Piekoszów, Sitkówka Nowiny, Strawczyn, Zagnańsk on 26 August 2005. The agreement noted the mutual functional interrelations between their local self-government units and expressed the willingness to cooperate in support of the development of the Kielce Metropolitan Area.

#### Key strategic documents in the context of urban development

In the Update of Regional Development Strategy of Świętokrzyskie Voivodeship until 2020, two operational priorities were identified within the strategic objective “Focusing on strengthening the role of urban centres in the stimulation of the economic development of the Region”: (1) the Kielce Metropolitan Area as an important growth driver for the entire Region and (2) urban centres as sub-regional and local growth poles. The following measures are envisaged under the first priority:<sup>57</sup>

- seeking to develop the metropolitan function of the capital of the Świętokrzyskie Voivodeship;
- improving the performance of the public transportation system inside the Kielce Metropolitan Area;
- supporting urban regeneration and
- supporting major cultural events.

It should be noted that the reinforcement of the economic potential of Kielce is the precondition for the successful development of the entire Region, both of the direct effect of Kielce on its functional area and

<sup>55</sup> Atrakcyjność inwestycyjna regionów 2012, Województwo Świętokrzyskie (“Investment attractiveness of regions in 2012, Świętokrzyskie”), Center for Regional and Local Analysis on behalf of Ministry of Regional Development, p.8

<sup>56</sup> ROP 2007–2013, p.11

<sup>57</sup> Update of RDS of Świętokrzyskie Voivodeship until 2020, p. 35

of the potential indirect effect of the city on sub-regional centres (Ostrowiec Świętokrzyski, Skarżysko Kamienna, Starachowice and Sandomierz) as well as local growth centres (such as: Końskie, Kazimierza Wielka, Busko-Zdrój, Jędrzejów, Staszów, Opatów, Pińczów, Włoszczowa). The following measures are envisaged under the second priority:

- establishing business incubators, technology parks, congress centres and other business support institutions within the territories of the aforementioned urban centres;
- relocating certain public institutions from Kielce that would boost the prestige of other towns considered by investors;
- improvement of the transport and telecommunications infrastructure – primarily improved access to fast Internet connections; improved quality of public and municipal services;
- development of higher education;
- facilitating capital investments by improving decision-making procedures in spatial planning and construction law;
- coordinated and consistent activities of regional and local authorities to support the territorial cohesion of the entire voivodeship.<sup>58</sup>

### **1.1.3. Experience in programmes / initiatives focusing on urban development implemented in the Region**

The most significant experience in the implementation of urban development programmes was the implementation of the Regional Operational Programme for the Świętokrzyskie Voivodeship 2007–2013 and of its 6th priority axis *Urban regeneration*, which comprised Measure 6.1. “Reinforcement of regional and sub-regional growth centres” and Measure 6.2. “Regeneration of small towns”. The 6th priority axis focused on initiatives aimed at including small towns and marginalised areas in the development processes of the Region.

It was assumed that particular focus should be on mitigating the deterioration of the areas surrounding the metropolitan centre. A number of measures must be taken for Kielce to be effective in its function of a regional metropolitan centre, focusing on, *inter alia*:

- ensuring open and consistent communication with the remaining part of the voivodeship and areas outside of the voivodeship,
- regeneration of marginalised and degraded areas of the city,
- improving the quality (including safety issues) and diversification of public transportation systems.

With respect to the individual parts of the Region, some metropolitan functions should be performed by sub-regional growth centres (represented by county cities). Support for them is also envisaged under the 6th priority axis of the ROP for the Świętokrzyskie Voivodeship 2007–2013.

The following projects are now supported under the 6th priority axis:

- Comprehensive projects involving the regeneration of marginalised towns and villages or parts of such towns and villages that form commune centres (including the water and sewage, road, education, tourism, sports and cultural infrastructure, waste management, modernisation and reconstruction of district heating systems and other projects involving technical infrastructure, improving the aesthetics of public spaces);
- Regeneration projects aimed at the renewal and increasing the attractiveness of central commune towns for tourists;
- Regeneration projects treated as components of integrated projects (operations) – this should be understood as Local Regeneration Programmes;
- Projects aimed at improving the performance and condition of transport infrastructure;

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<sup>58</sup>Update of RDS of Świętokrzyskie Voivodeship until 2020, p. 36

- Improving the quality and safety of urban transportation systems;
- Modernisation and construction of new railway and bus stations;
- Improving the quality and quantity of fair and exhibition facilities, including congress and conference facilities.

**Figure 112: Examples of experience in the implementation of urban development projects**

During the Programming Period 2004–2006, Kielce obtained funds from the European Union, *inter alia*, to restore and alter its main promenade – Sienkiewicza Street (which won the first prize for regeneration in the category “best lighting of a selected area” in the “Best-lit commune 2005” contest). EU funds were also used to finance the construction of a sports hall and a football stadium, , and the alteration of flyovers along Krakowska Street. The experience allowed the town to be more effective in acquiring and using EU funds in the 2007–2013 framework. In 2011, Kielce was implementing 13 projects funded by the Regional Operational Programme for the Świętokrzyskie Voivodeship, totalling PLN 272,894,836.13. The following projects have been implemented so far under the ROP: Geopark Kielce (Alteration of the Kądzelnia Amphitheatre), extension of 1 Maja Street and alteration of Herbski Bridge, construction of a commune road to provide access to the General Voivodeship Hospital and the State Archives in Kielce, extension of Zagórska, Wikaryjska and Chęcińska streets. Infrastructure was also developed for the Kielce Technology Park.

Seven projects are in the course of implementation under ROP for the Świętokrzyskie Voivodeship 2007–2013. They involve the development of the public transportation system in the Kielce Metropolitan Area, alteration of voivodeship road No 762, construction of a road interchange at the intersection of Armii Krajowej, Żelazna, Grunwaldzka and Żytnia streets in Kielce. On the other hand, projects strictly relating to regeneration include: Regeneration of the historical town centre of Kielce (stages I and II), restoration of public spaces and opening the road access to the Stadium-Garden historical zone, as well as opening of the Świętokrzyskie Archeo-Geological Trail.

Source: Local Regeneration Plan for Kielce

#### 1.1.4. Description of the draft assumptions to new ROPs

##### **Regional Operational Programme for the Świętokrzyskie Voivodeship 2014–2020**

Draft ROP was approved by the Management Board on May 8<sup>th</sup>, 2013. It enables the acceleration of work on the ROP. The document has been sent to the opinion of the Ministry for Regional Development (MRD).

Programme’s draft contains 10 priority axes:

- I. Innovation and Science,
- II. Competitive Economy,
- III. Efficient and Green Energy,
- IV. Natural and cultural heritage,
- V. Modern communication,
- VI. Urban development,
- VII. Efficient public services,
- VIII. The development of an active civil education,
- IX. Open labour market,
- X. Support.

Two axes will be financed by the ESF, seven axes - by the ERDF and the axe on technical assistance in the preliminary draft provided for funding from the ERDF. The document is consistent with the objectives of the Europe 2020 Strategy, and includes investment priorities included in the line of demarcation. The draft proposed ROP goals, as well as the name and the scope of intervention of each priority axis. There is only

one multi-fund priority axis "Development of Cities", which has been programmed, including intervention for Integrated Territorial Investments. In the present draft of the program also includes the territorial dimension of the planned intervention in the Region. The missing elements of the proposed program, including, among others, monitoring indicators, system implementation, how to implement the principle of partnership, the financial value of each priority axis will supplement on a regular basis.

The project does not include information about the allocation of funds and details of the system implementation. Tenders will be written out as soon as MRD refer to the provisions of the draft. There are currently only prepared the tender documents.

#### **Local Regeneration Programme for Kielce**

To identify projects that may potentially use FIs, a review of Local Regeneration Programme for Kielce was carried out. There are approximately 40 urban projects indicated in the LRP. A few projects covered by that document have already been completed. Part of the projects have been financed through the EU grants with 82% of funds available already allocated as of mid 2013. The following projects may potentially use funding in the form of FIs:

- Regeneration of the historical town centre of Kielce – stage II

Thus far ROP funding agreements have been signed only for the implementation of stage I of that project. The project will include four project activities. The first one is the regeneration of the inside of Warszawska Street, development of urban public spaces – regeneration of Leśna and Planty streets, as well as: Wesoła, Czerwonego Krzyża, Mickiewicza and św. Leonarda streets.

- Extension of Ściegiennego Street along state road No 73 in Kielce

The city is planning to obtain funds to support the project from the Operational Programme Infrastructure and Environment. The application is on the reserve list, which reduces the chance of obtaining funding under the Programme. Project implementation will resolve the road network of Kielce and direct road traffic toward the south-east, ensuring better access to the neighbouring regions of Poland.

- E-Świętokrzyskie – construction of a fibre optic network together with associated equipment in Kielce

The city has not obtained financial support for that project so far. The project value is expected to amount to PLN 25.8 M, of which PLN 20.4 M is to be provided as financial support.<sup>59</sup>

#### **1.1.5. Smart Specialisation Strategy**

Three regional specialisations were identified for the Świętokrzyskie Voivodeship<sup>60</sup>. They are:

- Efficient use of energy,
- Medical tourism and
- Trade fairs and congresses.

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<sup>59</sup> Long-Term Investment Plan for Kielce 2011–2015, p.22

<sup>60</sup> Branżowe Forum Innowacji (Industry Innovation Forum), Cezyna k. Kielc, 2012, <http://www.sejmik.kielce.pl/inteligentne-specjalizacje-w-rozwoju-regionalnym-34858.html>

## 2. FINANCIAL INSTRUMENTS & CASE STUDY ANALYSIS

### 2.1 Initial identification of supply and demand side, including previous market failures

#### 2.1.1. Supply side

##### 2.1.1.1. Description of the FIs currently available in the Region

The FIs market in the Świętokrzyskie Voivodeship is among the most underdeveloped markets in Poland. In 2012, three loan funds and one guarantee fund were operating in the voivodeship.<sup>61</sup> Currently, there are four loan funds and two guarantee funds in the Region (Figure 113). There are no entities providing risk capital in the Region: neither seed capital funds, nor business angel networks.

Figure 113: Key players in the regional FI market

4	Loan funds	Guarantee funds	2
	<ul style="list-style-type: none"> <li>• Koneckie Stowarzyszenie Wspierania Przedsiębiorczości (Końskie Entrepreneurship Support Association)</li> <li>• Fundacja Rozwoju Regionu Pierzchnica (Regional Development Fund in Pierzchnica)</li> <li>• Ośrodek Promowania i Wspierania Przedsiębiorczości Rolnej (Agricultural Entrepreneurship Promotion and Support Centre)</li> <li>• Fundusz Pożyczkowy Województwa Świętokrzyskiego Sp. z o. o. (Świętokrzyskie Voivodeship Loan Fund)</li> </ul>	<ul style="list-style-type: none"> <li>• Fundusz Poręczeń Kredytowych i Wspierania Finansowego FUNDSTAR (Credit Guarantee and Financial Support Fund)</li> <li>• Świętokrzyski Fundusz Poręczeniowy Sp. z o.o. (Świętokrzyskie Guarantee Fund)</li> </ul>	
0	Seed capital funds	Business angel networks	0

Source: *Business and Innovation Centres in Poland 2012 – Final Report*, Association of Business and Innovation Centre Organisers in Poland, Warsaw 2012.

##### 2.1.1.2. Guarantees

In 2010, the capital of regional guarantee funds totalled PLN 40.6 M (which also gave them the 13th position in the national ranking on the guarantee utilisation). In spite of the relatively low resources available for guarantees, the voivodeship is characterised by a rather high availability of such support, considering the potential demand. PLN 902 of guarantee capital available per SME gave the Świętokrzyskie Voivodeship a higher rank, 7th in Poland. At the end of 2010, only 16% of the available pool of resources was utilised.<sup>62</sup>

#### The Świętokrzyskie Guarantee Fund

The Świętokrzyskie Guarantee Fund does not provide guarantees for investments in urban regeneration and development. According to a representative of the Fund, to provide such guarantees, a larger pool of

<sup>61</sup>*Business and Innovation Centres in Poland 2012 – final report*, Association of Business and Innovation Centre Organisers in Poland, Warsaw 2012.

<sup>62</sup>*Report on the condition of guarantee funds in Poland – as on 31.12.2010 – final report*, the National Association of Guarantee Funds, PAG/Uniconsult, Warsaw 2011.

guarantee funds would be necessary. The Fund's products are addressed to micro-, small and medium enterprises. The Fund offers guarantees up to 80% of loan value, and the maximum guarantee amount is now PLN 1.4 M. Projects seeking such support have to be well-prepared and of high quality, as they have to obtain approval from the bank cooperating with the Fund. The Fund allocates approx. 80% of its portfolio to projects supporting development objectives – in that case, projects have to be particularly advanced. For revolving loans, projects do not have to be at such an advanced stage of preparation.

In the next 2014-20 Programming Period, the Świętokrzyskie Guarantee Fund would like to obtain access to capital injections and to extend its guarantee activities. Additionally, the Fund plans to obtain certification. The Fund is also interested in launching financial assistance. They cooperate with the Polish Agency for Enterprise Development („PARP”) and the Staropolska Chamber of Industry and Commerce.

### 2.1.1.3. Loans

In 2010, loan funds in the Świętokrzyskie Voivodeship granted loans in the total amount of PLN 11.1 M, being one of the lowest figures recorded in all voivodeships across Poland (13th place).<sup>63</sup>

### 2.1.1.4. Equity

There are no entities providing risk capital in the Region, neither seed capital funds, nor business angel networks.

The lack of available resources for investments is also shown by the results of the Questionnaire. From among the investors who submitted projects for the Questionnaire, six declared that they had attempted (with or without success) to obtain external financial support before from: Regional Operational Programme for the Świętokrzyskie Voivodeship, Ministry of Sport and Tourism, NFOŚiGW (National Fund for Environmental Protection and Water Management) and Polish Agency for Enterprise Development.

## 2.1.2. Demand side

### 2.1.2.1. Prevailing urban development project typologies that could be eligible for JESSICA financing

Considering the proposed categorisation of support areas, the highest number of projects was identified in the areas of urban regeneration and social infrastructure (five per area). Three projects aimed at supporting businesses. No energy-related projects were submitted.

Figure 114: Number of projects by sectors and sub-sectors

5	Urban regeneration	Energy	0
2	Regeneration of post-industrial and post-military sites	Energy efficiency	0
		Waste management	0
		Photovoltaics	0
2	Comprehensive modernisation of dilapidated buildings	Other renewable sources	0
		Heating	0

<sup>63</sup>Diagnosis of the loan funds sector in Poland as on 31.12.2010 – final report, A. Alińska, Warsaw 2011

3	Other	Other	0
<b>5</b>	<b>Social infrastructure</b>	<b>Business support institutions</b>	<b>3</b>
0	Schools/nurseries	R&D/innovation	1
0	Hospitals/long-term care	SMEs	2
1	Social and municipal housing	Business incubators/technology parks	1
1	Public buildings		
4	Other	Other	1
<b>1</b>	<b>Sustainable transport</b>	<b>Other</b>	<b>5</b>

Source: own study based on the Questionnaire.

Note: some projects have been classified into more than one category, and hence the sum of projects after counting all categories exceeds the total number of submitted projects.

### 2.1.2.2. Appetite of final recipients (including municipalities) for the use of FIs in urban development

The Marshal's Office did not conduct any research as regards the interest of potential beneficiaries in using FIs for the implementation of urban projects. Opinions and suggestions were captured during meetings and conferences. In the near future, however, the Office plans to send out information sheets to potential beneficiaries, asking them to provide information about the planned projects. The information sheet template includes, *inter alia*, a question about the preferred form of support if subsidies are not available. The results of the Questionnaire should be available in late spring.

Figure 115: Sectors' demand for specific Financial Instruments

Sector	Equity instruments	Loan	Guarantee	Grant	No response	Total
Urban regeneration	0	0	0	4	1	5
Energy	0	0	0	0	0	0
Social infrastructure	0	0	0	4	1	5
Business environment	0	0	0	2	1	4
Sustainable transport	0	0	0	1	0	1
Other	0	0	0	5	0	5

Source: own study based on the Questionnaire. Note: some projects have been classified into more than one category, and hence the sum of projects after counting all categories exceeds the total number of submitted projects.

Figure 116: Beneficiaries' demand for specific Financial Instruments

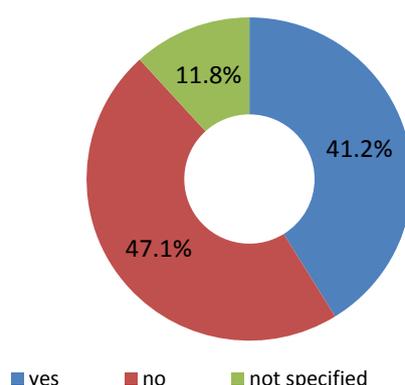
Type of beneficiary	Equity instruments	Loan	Guarantee	Grant	No response	Total
Local self-government units	0	0	0	13	1	14
Public sector companies	0	0	0	0	0	0
Private companies	0	0	0	0	0	0
Research institutions	0	0	0	0	0	0
Other	0	0	0	2	1	3
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>15</b>	<b>2</b>	<b>17</b>

Source: own study based on the Questionnaire

In Świętokrzyskie, a vast majority of respondents prefer support in the form of grants (83.3%). This is the lowest ratio of all Questionnaires voivodeships, and considering that the remaining part of respondents did not answer that question, no projects were identified where the project promoters would declare willingness to use FIs (including: guarantees, loans, equity instruments). This reflects, on the one hand, the very poor recognition and most likely the lack of understanding of the characteristics of FIs in the Region, and on the other hand, the poverty of the Region (being the poorest of all analysed regions).

Additionally, almost half of the respondents expressed unwillingness to use FIs, even if they were the only form of support available in the next Programming Period (47.1%). This is the lowest ratio of all analysed Regions.

Figure 117: Interest in FIs if they were the only form of financing for projects available in the 2014-2020 Programming Period



Source: own study based on the Questionnaire

As regards urban development, potential projects supported by FIs could also involve urban regeneration, energy efficiency (including residential buildings), business support institutions, technology parks and preparation of investment sites. Generally speaking, refundable support should be mainly addressed to entrepreneurs and business support institutions (BSI) within best-developed areas, where institutions already have the necessary infrastructure and are willing to initiate further activities. Subsidies, on the

other hand, should be granted to projects that are more socially focused, aiming to improve the social and economic situation.

However, potential projects that could be implemented in the next Programming Period are still at an early stage, most of them at the concept stage. It is one of the indicators of the need to ensure support for beneficiaries in the preparation of application documents. Currently, it is being considered whether part of the technical support resources could be allocated to support beneficiaries implementing key projects and to prepare those beneficiaries for the new Programming Period. On the other hand, the support for FIs alone should be financed by central-level programmes.

In the opinion of the Managing Authority, no substantial modifications should be introduced with respect to formal requirements that should be applied to projects in the 2014-20 Programming Period. Representatives of the Marshal's Office pointed out that it would be advisable to modify the project selection criteria in the 2014-20 Programming Period, so that they would be more linked to project effectiveness in the context of regional development.

Currently, it is difficult to ascertain what the average value or size of the project should be, as it is yet unknown what projects will be supported. At present, the average project value ranges from PLN 3 M to 4 M. It may be expected that the value of projects supported with FIs would be approximately PLN 1 M. In the opinion of the Managing Authority, no additional eligibility criteria should be introduced for those beneficiaries who will apply for project funding in the form of FIs. If a decision is made to do so, such criteria could possibly involve the financial condition of the beneficiary. Neither should any additional restrictions be imposed in regards of the project implementation period.

In addition, the representatives of the Marshal's Office believe it is necessary to coordinate application timetables for grants and FIs dedicated to SMEs in order not to create counterproductive competition for FIs and enable the multiple-stream financing for SMEs.

According to the representatives of the Marshal's Office, preferential loans and borrowings will be the most popular FIs in urban project funding, followed by less popular guarantees. Funds repaid by beneficiaries to UDFs should be used to support the implementation of subsequent projects in the same thematic area. Only then would the fundamental added value of FIs be realised – i.e. the potential to implement more projects, which will make a greater contribution to the development of the Region. In the future Programming Period, the possibility to use FIs with subsidised financing should be introduced. This would not only drive interest in FIs, it would also be a transitional period to help the beneficiaries in a smooth transition from grants to FIs. In the opinion of the Managing Authority, preferential terms, as regards the possibility to combine grants and FIs, should be given to projects of top priority within the regions, e.g. renewable energy projects.

According to the representatives of the Marshal's Office, the performance of UDFs does not have to fully depend on the type of institution performing that function (bank, loan fund), instead, it should rather depend on their experience and the capability to reach out to the potential beneficiaries. Therefore, it is impossible to ascertain whether the situation where UDFs are mainly banks is favourable or not. In each case, adequate performance control mechanisms should be envisaged for UDFs, to allow for the potential transfer of funds to another institution if any irregularities are identified. The appointment of separate UDFs for small and large towns is considered to be a good solution. The adoption of such a structure in the implementation of FIs helps avoid competition between large and small towns. Rivalry could put smaller towns at a disadvantage. There is also a risk that if there were a single UDF, it could focus on major projects that would allow it to achieve higher indicator values (e.g. use of funds).

According to the respondents, the rationale for referring part of FIs to central programmes and projects is not strong enough. The implementation of a programme at the central level would call for a range of legal and procedural changes, which would consume too much time and effort.

To stimulate the interest of potential beneficiaries in FIs, an informational and promotional campaign is necessary. It should be delivered as a workshop in small groups, where attendees could actively participate

in the discussions. The workshop would be used to present the particular FIs and to demonstrate how to apply for financing from those instruments.

During interviews, town representatives were asked about the demand for FIs. Kielce is interested in obtaining such support, but it would like to have the procedures applicable to JESSICA simplified.

### 2.1.2.3. Funding urban development

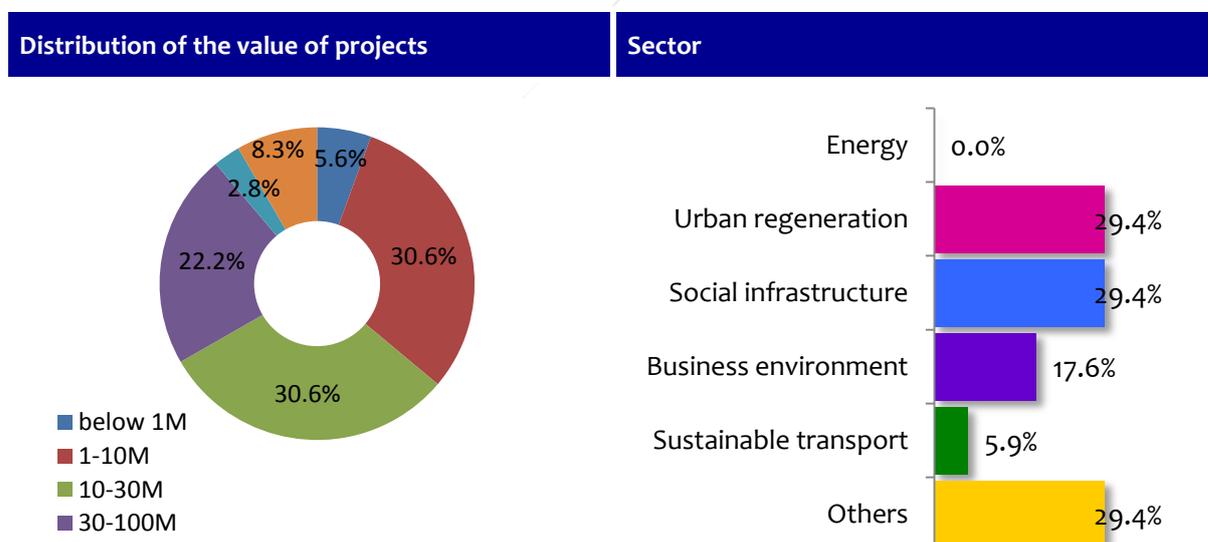
Ten applications were submitted under Measure 6.1, totalling more than PLN 80.1 M, of which ERDF financing accounted for more than PLN 42.8 M. Three projects under Measure 6.1 were put on the individual project list. Financial support was granted to all competing projects under Measure 6.1 and all individual projects under Measure 6.1.

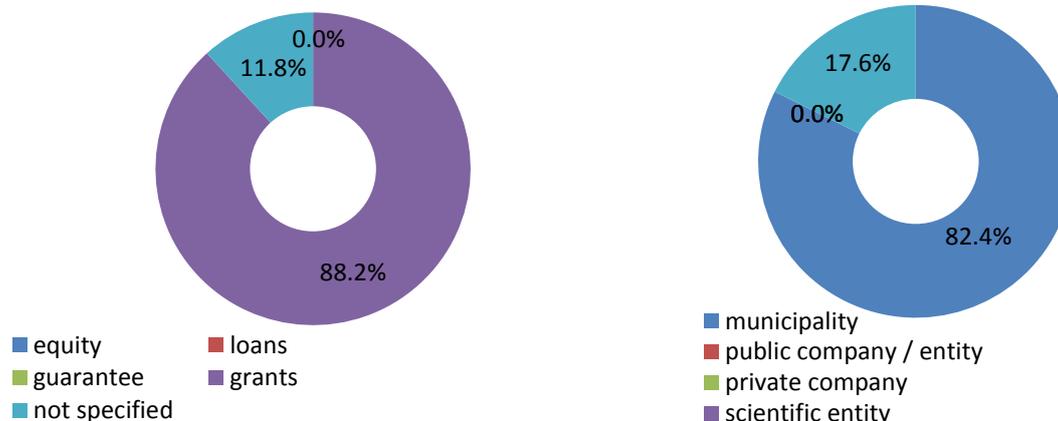
Thirty-nine applications were submitted under Measure 6.2, totalling more than PLN 136 M, of which ERDF financing accounted for more than PLN 83.5 M. Seven of them were rejected at the stage of formal assessment. A closed competition was also carried out under Sub-Measure 6.2.2, where 26 core projects and 5 reserve projects were selected. Forty-nine projects are being implemented in total under Measure 6.2, which means that 14 projects did not obtain financial support.

## 2.2. Identification of potential pipeline and Case Studies

### 2.2.1. Identification of potential projects

<b>Number of projects</b>	17
<b>Total value</b>	PLN 319.0 M
<b>Average value</b>	PLN 21.3 M





Source: own study based on the Questionnaire

17 projects were submitted in the Świętokrzyskie Voivodeship, with the total value estimated at PLN 319.0 M. The average project value was PLN 21.3 M, one of the lowest averages recorded in all nine voivodeships under study. The budget of half of the projects (52.9%) would be in the range of PLN 10 M to 30 M.

This is the only region of all regions under study where no projects were submitted in the energy area. The following percentages were recorded in other areas: urban regeneration (29.4%), social infrastructure (29.4%), business support institutions (17.6%) and sustainable transport (5.9%). 29.4% of the projects were categorised as “other”, including environmental protection, culture, sports and recreation projects.

#### 2.2.2. Identified Long List

The presentation of all projects identified in the Region can be found in Appendix III.

#### 2.2.3. Presentation of an Interim list

The presentation of all projects in the Interim List can be found in Appendix IV.

#### 2.2.4. Identification of two Case Studies

Project	Beneficiary	Sector	Value (PLN M)
Ostrowiec Cultural Brewery	Ostrowiec Świętokrzyski	Social Infrastructure/ Urban Regeneration	90
Regeneration of Busko-Zdrój Spa zone	Gmina Busko-Zdrój S.A	Urban regeneration	30

#### 2.2.5. Detailed analysis of two Case Studies

The presentation of two Case Studies analysed in the Region can be found in Appendix V.

### 3. RECOMMENDATIONS AND CONCLUSIONS

Potential project demand for FIs in each of four subsectors have been defined for Świętokrzyskie as following:

Figure 118: Potential demand for FIs for Świętokrzyskie

In PLN millions	Energy	Urban	Business Environment	Others	Total
JESSICA-type Equity	20-30 M	50-55 M	5-10 M	20-25 M	
JESSICA-type Loans	55-60 M	70-75 M	10-15 M	25-30 M	
JESSICA-type Guarantees	20-25 M	13-18 M	5 M	5-10 M	
<b>Estimated FI Size</b>	<b>100-115 M</b>	<b>145-150 M</b>	<b>20-30 M</b>	<b>60-65 M</b>	<b>300-355 M (€70-85 M)</b>
<b>Estimated Co-Investments</b>					<b>465-520 M</b>
<b>Estimated Leverage Factor</b>					<b>2.3</b>

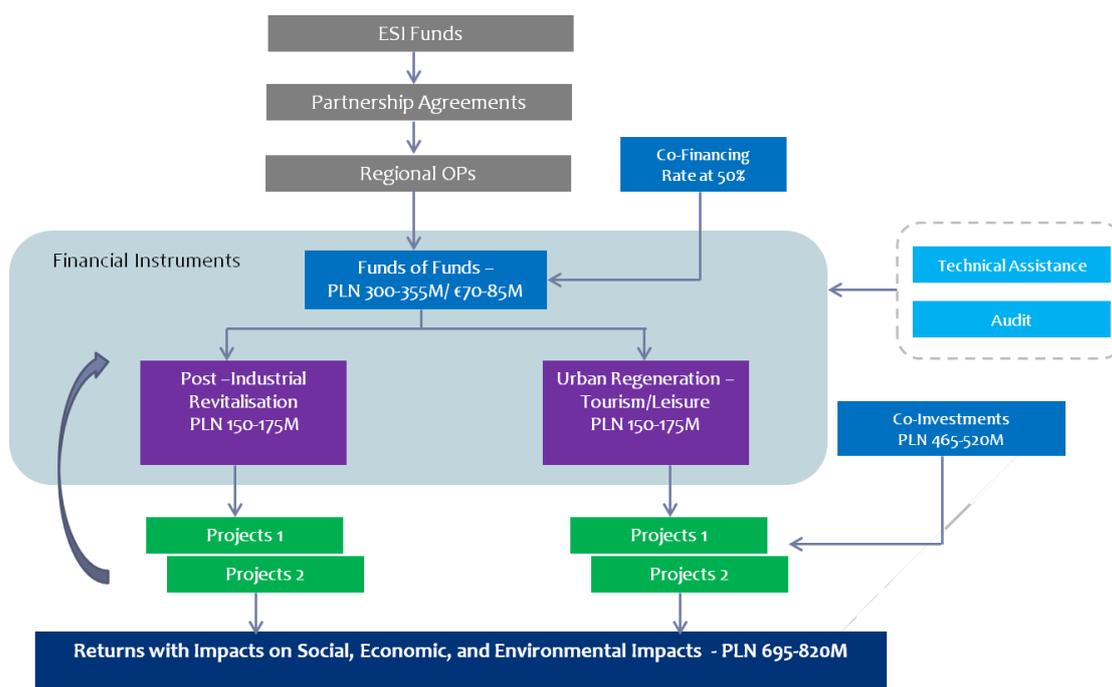
Świętokrzyskie is one of the smallest and poorest regions of Poland with rapidly changing demographics. Based on the Questionnaire and the market analysis as described in detail in Chapter 8 *General Definition of Financial Gap* of Part I of this Study, there is high interest for urban regeneration particularly for cultural heritage and tourism due to Świętokrzyskie's natural environment. Similarly, there is focus on improving transportation infrastructure linking smaller towns to Kielce as well as linkages to the rest of the country.

Due to Świętokrzyskie's limited experience in implementing FIs in the current Programming Period, through a **Fund of Funds structure**, two areas of intervention should be in particular taken into account and potentially two UDFs could be established:

- **Urban Regeneration – Post-Industrial Revitalisation:** Revitalisation of buildings could also include for example SME infrastructure such as business incubator and technology parks, both of which fits the regional strategy for improving economic competitiveness.
- **Urban Regeneration – Tourism/Culture/Historic Preservation:** In line with the need to revitalise and support cultural heritage, for example Cultural Brewery of Ostrowiec and Busko-Zdrój Spa Zone.

An estimate FI size of PLN 300 - 355 M/€70 - 85 M is recommended based on the analysis.

Figure 119: Indicative Organisational Scheme for Świętokrzyskie



FIs need to be operational ideally by late 2014 or beginning of 2015 in order to capitalise on the benefits of FIs over the longest period. This allows for sufficient time to develop the investment strategy and scope to be undertaken after the Partnership Agreement and ROPs are finalised in the first half of 2014 (timescales to be confirmed by the Commission). MAs are encouraged to conduct an ex-ante assessment as soon as possible and start with the tender process to procure a Fund of Funds Manager.

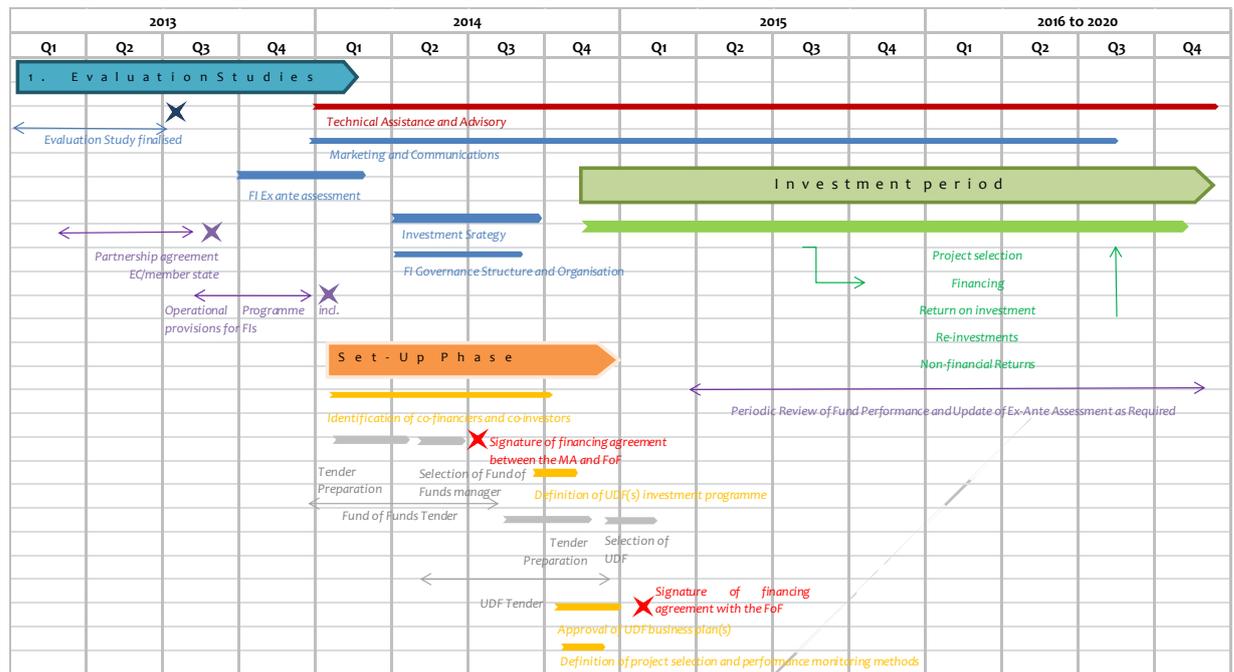
The Article 38 CPR enables MAs to entrust implementation of FIs to:

- directly to the EIB;
- international financial institution in which a Member State is a shareholder, or financial institutions established in a Member State aiming at the achievement of public interest under the control of a public authority; or
- a body governed by public or private law.

The MA may also implement FIs directly, but in this case FIs are limited to loans and guarantees.

Should the Świętokrzyskie wish to appoint the EIB as the Fund of Funds Manager, then this can be done as a direct award without going through the formal procurement process, which can take up to 6 months. Alternatively, subject to national procurement laws, Świętokrzyskie can also select another financial institution as the Fund of Funds Manager.

Figure 120: Indicative Implementation Timescale for Świętokrzyskie



## 1. REGIONAL POLICY CONTEXT

## 1.1. Analysis of the general conditions in Wielkopolskie Region



Area (ths km <sup>2</sup> )	29,800
Population (ths 2012)	3,462
Urbanisation ratio*	58%
Unemployment rate (2012)	9.8%
Relative average salary** (2011)	90.6

Source: The Central Statistical Office

\* urban population as percentage of total population

\*\*average monthly gross salary to the national average (Poland = 100)

## 1.1.1. General Presentation and Experience to Date

## Key features and challenges of Region's city areas

The Wielkopolskie Voivodeship's urban network is comprised of 109 urban centres, or 12.1% of total number of cities in Poland. In 2012, the Region's cities brought together 1.9 M inhabitants, or 8.3% of the country's urban population. The largest city of the Region is its capital Poznań (over 550,000 inhabitants), while the smallest is Dobra (1,650 inhabitants) of the Turecki Powiat. Kalisz belongs to the group of cities with more than 100 000 inhabitants. In total, in the case of 7 cities, number of inhabitants exceeds 50,000 (Poznań, Kalisz, Konin, Piła, Ostrów Wielkopolski, Gniezno, Leszno).

Average size of a city in the Wielkopolskie Voivodeship (measured in the number inhabitants) falls below Poland's national average. The distinguishing characteristic of the Region is its relative low urbanisation rate, compared to the rest of the country), measured in terms of the percentage of all population the urban population represents. In the case of the Wielkopolskie Voivodeship this stands at 55,5% while the national average is 60.6%.

The cities of the Poznań Agglomeration (ca. 700,000 inhabitants) clearly stand out as a subsystem within the overall structure of the Wielkopolskie Voivodeship's cities, comprising of 11 cities, including Poznań as its primary city and the regional hub, and 10 cities located within Poznań's direct sphere of influence, and with strong functional connections with it. Two of those cities, namely Luboń and Swarzędz, are medium-sized cities, with the remaining ones having populations of below 20,000.

The key developmental problems and challenges faced by the Wielkopolskie Voivodeship cities include<sup>64</sup>:

- The deepening disproportions between the Poznań Agglomeration and the rest of the Voivodeship;
- The deteriorating condition of the cultural assets;
- Spontaneous suburbanisation; and

<sup>64</sup> Based on the Wielkopolskie Voivodeship Development Strategy to 2020

- The need to provide for development of sub-regional centres, an important activating factor for the surrounding areas.

The strategic objective no. 5: “Increasing of Voivodeship’s cohesion” of the Wielkopolskie Voivodeship Development Strategy to 2020 is of key importance for the development of cities in Wielkopolska. One of the Strategy’s operational objectives – Operational Objective no. 5.4 “Support for areas demanding restructuring, renewal and revitalisation” provides the following interventions:

- Comprehensive, integrated revitalisation programmes that use instruments applied for other objectives in the framework that targeted specific challenges in these areas;
- Modernization and more efficient use of the local railway.

Moreover, strategic objective no. 6. “Strengthening economic potential of the Region” and its Operational Objective no. 6.4: “Development of business environment institutions” envisages the following operational objectives which are relevant to the urban development:

- Expansion of scope and quality of services of business environment institutions in line with the needs of enterprises;
- Establishment and development of institutions providing services for businesses and science (including Innovative Business Environment Institutions) and their networks;
- Promotion of cooperation between Business Environment Institutions;
- Increasing the scope of specialisation of Business Environment Institutions;
- Increasing effectiveness of services for business;
- Support to non-profit organizations operating for the entrepreneurship development.

The *Wielkopolskie Voivodeship Development Strategy 2020* also supports energy-related issues under the following objectives:

- Operational objective 3.1. Optimization of energy management;
- Operational objective 3.2. Increasing generation and the use of alternative energy resources;
- Operational objective 3.3. Improvement of energy security of the Region.

It should be underscored that the development rate differences between the Poznań Agglomeration and the other areas of the Voivodeship are an unfavourable phenomenon. Yet otherwise, by developing at a faster rate than the rest of the Wielkopolskie Voivodeship, the Poznań Agglomeration acts as a growth pole for the entire Region.

### **Experience in using Financial Instruments**

The Wielkopolskie Voivodeship played a pioneering role in using FIs for urban development in Poland and in the European Union as the first region to establish a JESSICA Holding Fund with the EIB. By end September 2013, UDF in the Wielkopolskie Voivodeship had signed 22 loan agreements for total amount of PLN 255.5 M.

Moreover, the Region has experience in applying FIs toward support of enterprise development as it implemented the JEREMIE initiative toward achieving Measure 1.3 of the Regional Operational Programme for the Wielkopolskie Voivodeship for the Programming Period 2007-2013. Over PLN 501 M was earmarked for refundable support of the Region’s enterprises. Implementation of JEREMIE in the Region has been very effective in terms of disbursement of funds (defined as an amount of funds disbursed to final beneficiaries) that reached PLN 460.5 M by June 2013<sup>65</sup>. The value of agreements between UDF and Financial Intermediaries reached PLN 625 M.

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<sup>65</sup> ibidem

### **1.1.2. Description of the Wielkopolskie Region and the key priorities for the Region's development - regional / local strategies and investment needs**

#### **Urban areas in the Region**

In a review of the social and economic conditions of the Wielkopolskie Voivodeship, the settlement network of the Voivodeship is characterised by a large number of urban centres, particularly small cities and towns operating within a set hierarchical system and presenting a diversity of the functions they perform. What also stands out is the low urbanisation ratio combined with high density urban network. Within city limits, there are frequently extensive areas that stand out for: degraded urban development (frequently buildings of high historic and/or architectural value); highly depreciated technical infrastructure; inaccessibility in transport terms; and high concentration of negative social phenomena. This makes for their reduced attractiveness leading to distorted economic structure, and consequently to depopulation.

#### **Key strategic documents in the context of urban development**

In key development programming documents a lot of attention was paid to the urban regeneration process in cities of Wielkopolskie Voivodeship. The Wielkopolskie Voivodeship Development Strategy 2020 (current as of December 2012) supports implementation of urban development measures under the following objective:

- Operational objective 1.5. Public transport development
- Operational objective 3.1 Energy management optimisation
- Operational objective 4.1 Development of Poznań Metropolitan Area
- Operational objective 4.2 Reinforcing development poles in sub regions
- Operational objective 5.3 Activating areas with the least amount of development and with worsening perspectives
- Operational objective 5.4 Supporting areas requiring restructuring, renovation and revitalization
- Operational objective 6.4. Development of business support institutions

These objectives have been addressed mainly through implementation of priority I, III and IV of ROP 2007-2013: *Competitiveness of enterprises, Natural environment, Regeneration of problem areas*. The Wielkopolskie Voivodeship Development Strategy does not specify methods of financing those urban regeneration and development needs. The increasing importance of FIs in financing the projects is pointed out. The operational objective 6.6 – Development of FIs for the economy has been specifically identified to address this area.

The Updated Wielkopolskie Voivodeship Development Strategy also includes references to urban regeneration and development as one of the areas of priority in the Region.

### **1.1.3. Experience in programmes / initiatives focusing on urban development, implemented in the Region supported by the EU Structural Funds**

Urban regeneration projects have been implemented as part of the Regional Operational Programme for the Wielkopolskie Voivodeship under three specific measures in the Programming Period 2007-2013. Within Measure 4.1., Regeneration of urban areas, urban projects receive direct support through the JESSICA instruments in form of Public-Private Partnerships and other projects covered by the Integrated Plan for Sustainable Urban Development.

Within Measure 4.2., Regeneration of degraded post-industrial and post-military sites, a non-refundable support is provided.

The Activity 1.4 „Supporting Enterprises Connected with the Regional Innovation Strategy” points out Scheme III regarding investments in support to the business support institution in urban areas, The purpose of the activity is to reinforce the regional innovation system through reinforcing the science and development area and the business support institutions.

#### **Figure 121: Sample experience in implementation urban regeneration projects with JESSICA**

The very first project implemented and completed in the Wielkopolskie Voivodeship with utilisation of the implemented JESSICA instrument was the Cultural Centre of Koźmin Wielkopolski. The Project involved reconstruction and conversion of a derelict post-industrial building into a local cultural centre at the cost of PLN 1.5 M. The Koźmin Wielkopolski local commune was the project beneficiary. In addition to non-commercial social and cultural functions, the project also generates revenues from rental of its space for cultural activities and events.

#### **Figure 122: Sample experience in implementation of urban development projects under ROP 2007-2013**

The Gnieźnieński Powiat (county) implemented a project entitled “Adaptation of vacated military barracks located at 20 Sobieskiego Street in Gniezno for educational purposes and public benefit organisations”. The project secured financial support under the Regional Operational Programme for the Wielkopolskie Voivodeship equivalent to 60% of project costs. Total project value stood at ca. PLN 11 M.

The subject of the project was regeneration of a degraded post-military site through reconstruction and adaptation of vacated military barracks. The project specifically involved reconstruction of the main barracks building and one of the buildings previously fulfilling a service function. The buildings were adapted for educational use by three secondary schools. Moreover, they also house the Powiat Labour Office and the “Promyk” Physiotherapy and Cultural Centre Association. The smaller of the two buildings was adapted to house a vocational training workshop for food preparation and hotel services.

Source: <http://www.umwww.pl/>

#### **1.1.4. Description of the draft assumptions to new ROP**

##### **Regional Operational Programme for the Wielkopolskie Voivodeship 2014-2020**

The latest version of the Regional Operational Programme for the Wielkopolskie Voivodeship for the Programming Period 2014-2020 was confirmed on 11<sup>th</sup> October 2013.

#### **1.1.5. Updated Wielkopolskie Voivodeship Development Strategy 2020**

Regional Operational Programme for Wielkopolskie Voivodeship 2014-2020 is based on the Updated Wielkopolskie Voivodeship Development Strategy 2020, adopted in December 2012. This Strategy provides for implementation of urban regeneration interventions in four areas:

- urban regeneration of underperforming, stagnating districts (Objectives 5.3, 5.4) and improvement of development centres (4.1, 4.2);
- development of public transport (Objective 1.5);
- improvement of energy efficiency (Objective 3.1) and
- development of business support institutions (Objective 6.4).

### 1.1.6. Local Urban Regeneration Plans

All cities with a population of over 50 thousands inhabitants should prepare their Urban Regeneration Plans. We have identified more than 40 cities that have Urban Regeneration Plans in the Voivodeship (mostly capitals of Poviats).

In order to identify projects that could potentially benefit from the FIs in addition to those disclosed through the Questionnaire, the Urban Regeneration Plans of the three largest cities of the Region (Poznań, Kalisz and Konin) have been reviewed.

The document “Local Regeneration Programme for the City of Poznań” represents the third consecutive update of the Plan and has been adopted by the Municipal Council in April 2012. The Plan, among others, provides for implementation of the following projects:

- Redevelopment of areas on the Warta river in Poznań;
- Construction of a new section of the Stübben Ring road in the Chwaliszewo district of Poznań;
- Renovation of the streets forming the historic Royal Kaiser Mile, i.e.: the Ostrówek, Śródka, and Filipińska streets, and the Śródecki Square;
- Expansion of the municipal district heating infrastructure to limit carbon emission in the Jeżyce district;
- Modernisation of the historic school building of the Primary School No. 36 and aesthetic improvements to its surrounding area, including construction of a playground, renovation of sports playing fields, establishment of green areas; at 54/56 Słowackiego Street in the Jeżyce district.

#### Figure 123: Sample experience in implementation of urban regeneration projects

One of the projects implemented in Poznań within the framework of the third edition of the Urban Regeneration Programme for the City of Poznań was the construction of the New Gasworks Pavilion as a temporary facility of a cultural centre located in the southern section of the Warta River cut-off (known as the Old Warta Riverbed). The project was implemented in 2010-2011 at a cost of ca. PLN 1.5 M, and its financing came from the municipal budget of Poznań.

The project is part of a wider regeneration of the district and precedes development of the new cultural centre: regeneration of the Old Gasworks into the New Gasworks; to house exhibition space, a concert hall and a facilities for social gatherings. Meanwhile, the pavilion is a single-storey rotunda built out of semi-opaque polycarbonate. Its interior houses: an art gallery; a stage for young artists; a café; and some commercial use space. It hosts various cultural events: exhibitions of modern art; audio-visual project presentations; and concerts.

*Source: Local Regeneration Programme for the City of Poznań and [www.pawilon.org](http://www.pawilon.org)*

The 2011 Integrated Plan for Urban and Post-Industrial Areas Development in Kalisz (ZPROMiP) until 2020 has identified 6 revitalisation projects to be financed using JESSICA instrument. In total, the cost for their implementation is estimated at approx. PLN 62.8 M, out of which PLN 23.1 M will come from EU/JESSICA funds, while PLN 33 M should be acquired under the Public-Private Partnerships. The ZPROMiP financial plan assumes inter alia the following projects:

- Northern entry gate to Kalisz – total cost: PLN 30 M
- Managing the areas of the former Falkiewicz factory into post-industrial areas – total cost PLN 15 M
- Reconstruction of the old housing estates – total cost: PLN 15 M

The Integrated Local Programme for Revitalising Konin for 2007-2015 has listed approx. 31 investments planned for 2013. Significant majority of them includes thermal modernisation of multi-family houses. Cost of this type of projects has been estimated at PLN 110 -660 thousand. Other projects under consideration are inter alia:

- Construction of the multi-purpose event and sports hall – total cost: PLN 30 M
- Construction and improvement of football pitches - total cost: PLN 6 M
- Construction of two housing estates at Józefa Bema street in Konin – total cost: PLN 6.9 M

#### **1.1.7. Smart Specialisation Strategy**

An Executive Programme for the Regional Innovation Strategy (RIS) is being developed to address *inter alia* the Smart Specialisation Strategy in accordance to the European Commission's directives. The current works take form of: on-line participation (submitting initiatives and forum discussions), working group meetings and active participation in workshops. The cooperation between academic environment and business also plays an important role in proper identification of smart specialization areas.

Smart specialization has been also in the Wielkopolskie Voivodeship Development Strategy and the Partnership Agreement. The Wielkopolskie Voivodeship Development Strategy defines specializations as particular areas which development may provide consistent and fast development of the Region. These specializations include: environment, food sector, creative sector, and technologies and the list might expand in the future.

## 2. FINANCIAL INSTRUMENTS & CASE STUDY ANALYSIS

### 2.1 Initial identification of supply and demand, including previous market failures

#### 2.1.1. Supply Side

##### 2.1.1.1. Description of the FIs currently available in the Region

In 2012, 11 loan funds and 5 guarantee funds<sup>66</sup> operated in the Wielkopolskie Voivodeship. The Region rather lacks entities offering venture capital funding, with only 1 seed capital fund and no business angel networks. Besides regional providers of FIs, developers might access funds available through financial intermediaries active nationwide, both on debt (commercial banks and other debt providers, including bond issues) as well as equity products (in particular equity funds, infrastructure funds, venture capital funds, business angels as well as other specialised funds). However, as discussed in Chapter 7.3 *Case Study Conclusions* in Part I of this Study, due to risks associated with these types of projects, relatively low expected levels of returns, relatively low project value and/or early stage of development, project promoters face relatively low interest from these types of market participants.

Figure 124: Key players in the regional FI market

11	Loan funds	Guarantee funds	5
	<ul style="list-style-type: none"> <li>Kalisz Entrepreneurship Incubator Foundation (<i>Fundacja Kaliski Inkubator Przedsiębiorczości</i>)</li> <li>Ostrów Entrepreneurship Support Centre Association (<i>Stowarzyszenie Ostrowskie Centrum Wspierania Przedsiębiorczości</i>)</li> <li>Ostrzeszów Entrepreneurship Centre Association (<i>Stowarzyszenie Ostrzeszowskie Centrum Przedsiębiorczości</i>)</li> <li>Subregional Loan Fund in Piła (as a branch of Polish Entrepreneurship Foundation) (<i>Subregionalny Fundusz Pożyczkowy Wielkopolska Północ w Pile – oddział Polskiej Fundacji Przedsiębiorczości</i>)</li> <li>Wielkopolska Entrepreneurship Development Agency Ltd. (<i>Wielkopolska Agencja Rozwoju Przedsiębiorczości Sp. z o.o.</i>)</li> <li>Subregional Loan Fund WIELKOPOLSKA PÓŁNOC in Poznań (as a branch of Polish Entrepreneurship Foundation) (<i>Subregionalny Fundusz Pożyczkowy Wielkopolska Północ w Pile – oddział Polskiej Fundacji Przedsiębiorczości</i>)</li> <li>Entrepreneurship Development Fund in Śrem (Various Craft Guilds) (<i>Fundusz Rozwoju Przedsiębiorczości w Śremie (Cech Rzemiosł Różnych)</i>)</li> <li>Regional Development Agency in Konin (<i>Agencja Rozwoju Regionalnego w Koninie</i>)</li> <li>ECDF-TISE Active Wielkopolska Loan Fund (<i>Fundusz Pożyczkowy Aktywna Wielkopolska ECDF-TISE</i>)</li> <li>IKB Leasing Polska Ltd.</li> <li>Wielkopolska Entrepreneurship Development Agency Ltd. (<i>Wielkopolska Agencja Rozwoju Przedsiębiorczości Sp. z o.o.</i>)</li> </ul>	<ul style="list-style-type: none"> <li>Powiat Credit Guarantee Fund (Gniezno Economic Development Agency Ltd.) (<i>Powiatowy Fundusz Poręczeń Kredytowych – Gnieźnieńska Fundacja Rozwoju Przedsiębiorczości</i>)</li> <li>Local Government Credit Guarantee Fund Ltd. (<i>Samorządowy Fundusz Poręczeń Kredytowych Sp. z o.o.</i>)</li> <li>Jarocin Credit Guarantee Fund Ltd.</li> <li>Wielkopolskie Voivodeship Development and Promotion Fund Plc. (<i>Fundusz Rozwoju i Promocji Województwa Wielkopolskiego S.A.</i>)</li> <li>Poznań Credit Guarantee Fund Ltd. (<i>Poznański Fundusz Poręczeń Kredytowych</i>)</li> </ul>	

<sup>66</sup> *Ośrodki Innowacji i Przedsiębiorczości w Polsce 2012 – raport końcowy* (Centres of Innovation and Entrepreneurship in Poland 2012 – Final Report), Association of Organisers of Innovation and Entrepreneurship Centres in Poland, Warsaw 2012.

1	Seed capital funds*	Business angel networks	0
<ul style="list-style-type: none"> <li>ECDF Seed Capital (as a part of Fundusz Pożyczkowy Aktywna Wielkopolska ECDF-TISE)</li> </ul>			

Source: Ośrodki Innowacji i Przedsiębiorczości w Polsce 2012 – raport końcowy (Centres of Innovation and Entrepreneurship in Poland 2012 – Final Report), Association of Organisers of Innovation and Entrepreneurship Centres in Poland, Warsaw 2012.

### 2.1.1.2. Guarantees

In 2011, the combined capital of the guarantee funds in the Region amounted to PLN 76.4 M (8th in the nationwide ranking in Poland).

#### The Wielkopolskie Voivodeship Development and Promotion Fund

The Wielkopolskie Voivodeship Development and Promotion Fund is the Region’s biggest loan guarantee fund. Apart from that, there are 5 guarantee funds offering guarantee products.

Established in 2001, the Wielkopolskie Voivodeship Development and Promotion Fund granted 433 guarantees in a total amount of PLN 89.1 M.<sup>67</sup> Initially, the Fund was supported by an equity of PLN 3 M and its sole shareholder was the Wielkopolskie Voivodeship. At the end of 2010 its equity was raised to PLN 13.4 M which turned it into one of the largest guarantee funds in Poland (in equity terms). In the same year the Fund granted 481 guarantees totalling over PLN 47.3 M. The Fund provides guarantees up to an amount of PLN 1 M representing up to 80% of the underwritten loan value. The maximum guarantee period is 5 years.

### 2.1.1.3. Loans

In 2012, the Wielkopolskie Voivodeship loan funds granted loans amounting in total to PLN 64 M<sup>68</sup>. Moreover, loans are also available under the JEREMIE Initiative. The amount of the loan can range from PLN 1 M to PLN 2,5 M (for innovative activities) while the financing term – from 5 to 10 years (in case of innovative activities).

### 2.1.1.4. Equity

Only 1 seed capital fund operated in the Region.

Regional entities might benefit also from capital instruments available on national level, as for example funds from the Polish Enterprise Foundation (Polska Fundacja Przedsiębiorczości) and commercial equity providers as in particular: equity funds, infrastructure funds, venture capital funds, business angels as well as other specialised funds. However, as discussed in Chapter 7.3 *Case Study Conclusions* in Part I of this Study, due to risks associated with these types of projects, relatively low expected levels of returns, relatively low project value and/or early stage of development, there is generally insufficient interest from commercial market participants in most of types of regional projects.

Taking the above into account, it could be assumed that offering loans, guarantees and equity contributions of significant value should address the Region’s present demand in the urban sector that has been explored further in the Study.

<sup>67</sup> Sprawozdanie Zarządu z działalności Funduszu Rozwoju i Promocji Województwa Wielkopolskiego S.A w roku 2012, Poznań 2012.

<sup>68</sup> Information from Polish Association of Loan Funds; report concerning diagnosis of Polish loan funds market for the year 2012 is under preparation.

### 2.1.1.5. JEREMIE

The JEREMIE initiative has been provided under Measure 1.3. of ROP: Development of the FIs system supporting entrepreneurship. The Wielkopolskie Voivodeship JEREMIE Holding Fund was vested with PLN 376 M from the ERDF and PLN 125.3 M from the national budget. As at the end of June 2013, the UDF has signed 27 agreements with Financial Intermediaries. The value of these agreements exceeded PLN 625 M. As of June 2013, the number of financing agreements signed with micro, small and medium enterprises reached 4,506.

### 2.1.2. Demand side

#### 2.1.2.1. Prevailing urban development project typologies that could be eligible for JESSICA financing

Analysis of the identified projects in terms of the four key sectors of support offered by JESSICA programme, indicated that as many as 15 of those 25 projects represent the regeneration of urban areas typology, with most of them (9) focused on comprehensive modernisation of derelict buildings. The remaining categories were represented as follows: 5 projects in social infrastructure; another 5 in energy; 1 project in business support institutions and 1 in sustainable transport. There is substantial interest in the Region in the JESSICA programme support, particularly voiced by representatives of the private sector, and primarily in the energy sector (3 projects).

Figure 125: Number of projects by sectors and subsectors

<b>15</b>	<b>Urban regeneration</b>	<b>Energy</b>	<b>5</b>
2	Regeneration of post-industrial and post-military sites	Energy efficiency	3
		Waste management	0
		Photovoltaic	2
9	Comprehensive modernisation of dilapidated buildings	Other renewable sources	1
		Heating	2
7	Other	Other	1
<b>5</b>	<b>Social infrastructure</b>	<b>Business support institutions</b>	<b>1</b>
3	Schools/nurseries	R&D/innovation	0
0	Hospitals/long-term care	SMEs	1
0	Social and municipal housing	Business incubators/technology parks	0
3	Public buildings		
0	Other	Other	0
<b>1</b>	<b>Sustainable transport</b>	<b>Other</b>	<b>4</b>

Source: Proprietary work, derived from the Questionnaire.

Note: Some of the projects have been classified into more than one category, hence, the sum total of projects in all the categories is greater than the total number of submitted project proposals.

#### 2.1.2.2. Appetite of final recipients (including municipalities) for the use of FIs in urban development

In the opinion of a representative of the Marshal's Office, FIs will be used to a larger extent in the 2014-20 Programming Period. The amount of funds which should be allocated to the FIs will be determined after the ex ante assessments. Potential increase in interest in FIs is primarily due to the fact that awareness of

its availability has increased among private sector investors as a result of the JESSICA and JEREMIE initiatives. This opinion is also supported by the Questionnaire results. The percentage of respondents in the Wielkopolskie Voivodeship pointing to FIs as the likely source of financing of their investment projects was the highest as compared to all the other regions. In the case of 10 out of the 25 projects the respondents indicated their intention of taking advantage of the FIs, including: loans (9) and equity instruments (1). Interest in utilising support of that type was primarily concentrated with the enterprises (public and private), but also to some extent with the territorial self-government units.

**Figure 126: Demand among sectors for respective Financial Instruments**

Sector	Equity instruments	Loan	Guarantee	Grant	No response	Total
Regeneration of urban areas	0	5	0	8	2	15
Energy	1	2	0	2	0	5
Social infrastructure	0	2	0	3	0	5
Business support institutions	0	1	0	0	0	1
Sustainable transport	0	0	0	0	1	1
Other	0	1	0	2	1	4

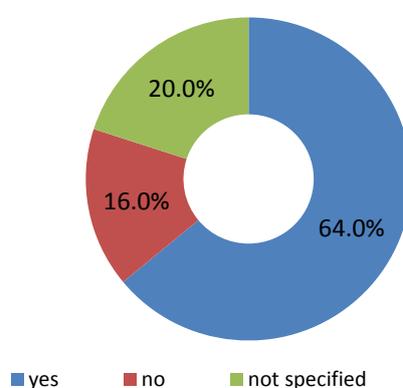
Source: Proprietary work, derived from the Questionnaire

Note: Some of the projects have been classified into more than one category, hence, the sum total of projects in all the categories is greater than the total number of submitted project proposals.

Should there be no possibility of drawing on subsidies for implementation of planned projects in the 2014-2020 Programming Period, none of the potential beneficiaries excluded the possibility of using FIs.

It should be emphasized that nearly two-thirds of the respondents declared their intention of using FIs if these were to be the only form of support available in the next Programming Period (64.0%); with a substantially smaller group of the respondents expressing their lack of interest in support of that type (16.0%).

**Figure 127: Interest in FIs if they were the only form of financing for projects available in the 2014-2020 Programming Period**



Source: Proprietary work, derived from the Questionnaire.

Figure 128: Demand among beneficiaries for respective Financial Instruments

Type of beneficiary	Equity instruments	Loan	Guarantee	Grant	No response	Total
Local self-government units	1	3	0	10	2	16
Public sector companies	0	2	0	1	0	3
Private companies	0	0	0	0	0	0
Research institutions	0	0	0	0	0	0
Other	0	4	0	1	1	6
<b>TOTAL</b>	<b>1</b>	<b>9</b>	<b>0</b>	<b>12</b>	<b>3</b>	<b>25</b>

Source: Proprietary work, derived from the Questionnaire.

In the opinion of the Marshal's Office, a broader range of products should be available for financing urban projects in the next Programming Period: not just loans, but also guarantees and equity instruments. Types of products available will be determined after completion of the ex-ante assessment and detailed analysis of the regulatory framework. Potential beneficiaries need to be more informed to be able to reach out for various instruments that are appropriate for financing of their projects.

The representatives of the Marshal's Office stressed that the funds distribution mechanism should be made more flexible than the currently used mechanism which is strongly determined by the legal restrictions not fully in line with market's needs and expectations. It is therefore necessary to advocate for appropriate regulation of these issues in order to facilitate the access to FIs and to make the support more flexible.

### 2.1.2.3. Funding urban development

The competitive procedure conducted in respect of Measure 4.2, Regeneration of degraded post-industrial and post-military areas, yielded 12 applications with total requested financial support exceeding PLN 192 M. Agreements were signed for 7 projects, with total awarded financial support in an amount of circa PLN 54 M. This means that 5 projects applying in total for financial support of PLN 138 M were rejected. In addition to the projects selected through the competitive procedure, projects were also selected for implementation and awarded financial support of over PLN 6 M<sup>69</sup> under an individual Measure 4.2.

73 applications of total value of PLN 1,025 M were submitted to be financed under JESSICA in Wielkopolska. As of 30<sup>th</sup> September 2013 agreements were signed for 22 projects, with total awarded financial support in an amount of circa PLN 255.5 M, out of which:

- 1 projects concerned Measure 1.4. *Revitalisation of Urban Areas* – value of the granted financial support: PLN 18,5 M and
- 2 projects conforms to Measure 1.4. *Revitalisation of Urban Areas* and Measure 4.1 *Support for undertakings related to the Regional Innovation Strategy*. The value of granted financial support within Measure 1.4. amounted to PLN 12.15 M, while financial support within Measure 4.1. – MLN 27.98 M<sup>70</sup>.

<sup>69</sup> All data provided by Marshal Office of Wielkopolskie Voivodeship.

<sup>70</sup> Data provided by Bank Gospodarstwa Krajowego (BGK).

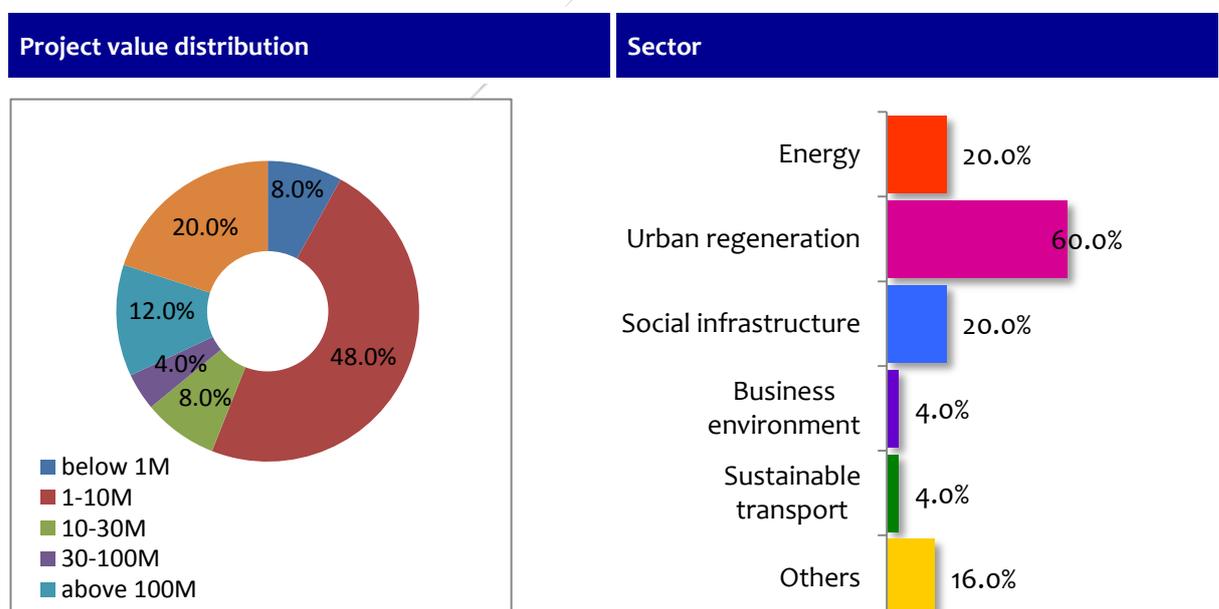
The Questionnaire results contribute to the analysis of why funding was not available for some investment projects. Among the investors who notified their projects in response to the Questionnaire, nine declared that they had previously made unsuccessful attempts at acquiring financial support for implementation of their projects. Three of those respondents indicated that they were unsuccessful in securing financing within the Regional Operational Programme for the Wielkopolskie Voivodeship. In one case the unsuccessful bid related to Measure 1.4. of the Integrated Regional Development Operational Programme, an operational programme of the earlier Programming Period and to the European Economic Area Financial Mechanism. The City and Municipality of Grabów upon Proсна and the City of Grabów failed to secure loans from the funds of the National Fund for Environmental Protection and Water Management. Company Kogeneracja Zachód failed to obtain loans from PKO BP and BOŚ Bank whereas the Municipality of Międzychód failed to obtain a loan from BGK.

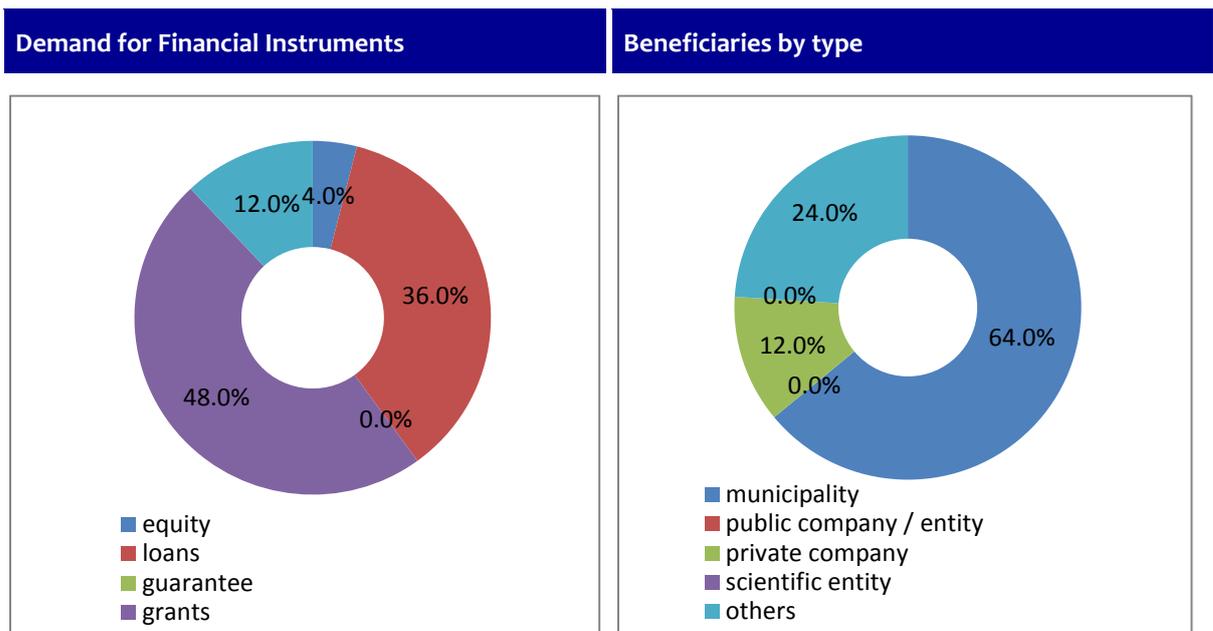
## 2.2 Analysis of implementation options and Case Studies

### 2.2.1. Identification of potential projects

<b>Number of projects</b>	25
<b>Total value</b>	PLN 8,060.8 M
<b>Average project value</b>	PLN 403.0 M

A total of 25 projects of total value of PLN 8,060.8 M were identified in the Wielkopolskie Voivodeship. This represents the highest total budget of the notified projects among all of the voivodeships included in the study. Average single project value reached PLN 403.0 M. However, relatively small investment projects with budgets of between PLN 1 M and PLN 10 M (48.0%) dominated. Value of 3 of those projects (12%) exceeded PLN 100 M. Worth special mention is the fact that the group of the top 3 projects included the largest scale project among those notified in the Questionnaire: Purchase of land around the III Communication ring of Poznań; valued at PLN 7,000 M.





Source: own study based on the Questionnaire.

Nearly two-thirds of the projects disclosed through the Questionnaire study were investments in regeneration of urban areas (60.0%). The remaining ones concerned investments in: social infrastructure (20.0%); energy (20.0%); business support institutions and sustainable transport (4.0% each); and the “other” category (16.0%). Despite low interest in equity initially demonstrated by project developers, the Case Studies have proved that only targeted use of equity or mezzanine instruments, often along with preferential loans helped the projects take off which otherwise would not have. The equity contribution provides funding to financially -stretched developers that face the lack of interest from private equity side, especially due to early development or construction stage and the risks associated and/or lower than acceptable potential level of returns. This Study demonstrates that availability of loans (irrespective of their potentially attractive terms and conditions) helps the projects’ economics but often does not allow for projects to “unlock” (i.e. to obtain required financing) that can rather be addressed by properly structured equity contributions. Low interest in equity and guarantee instruments results in the Project Team opinion rather from low recognisability of these FIs in bank dominated financial market in Poland that needs to be addressed through proper information and education campaign.

### 2.2.2. Identified Long List

The presentation of all projects in identified in the Region can be found in Appendix III.

### 2.2.3. Presentation of an Interim list

The presentation of all projects in the Interim List can be found in Appendix IV.

#### 2.2.4. Identification of two Case Studies

Project	Beneficiary	Sector	Value (PLN M)
District Heating with SMEs (Szamotuły)	Kogeneracja Zachód	Energy – energy efficiency	70 (+23)
River in the City - development of riverside areas in Poznań	City of Poznań	Urban regeneration	2,375

#### 2.2.5. Detailed analysis of two Case Studies

The presentation of two Case Studies analysed in the Region can be found in Appendix V.

### 3. RECOMMENDATIONS & CONCLUSIONS

Potential project demand for FIs in each of four subsectors have been defined for Wielkopolskie as following:

Figure 129: Potential demand for FIs for Wielkopolskie

In PLN millions	Energy	Urban	Business Environment	Others	Total
JESSICA-type Equity	125-130 M	115-120 M	25-30 M	15-20 M	
JESSICA-type Loans	290-295 M	155-160 M	45-50 M	15-20 M	
JESSICA -typeGuarantees	105-110 M	35-40 M	15-20 M	5 M	
<b>Estimated FI Size</b>	<b>530-540 M</b>	<b>315-320 M</b>	<b>95-100 M</b>	<b>55 – 60 M</b>	<b>865 M –1.0 Bn (€205-245 M)</b>
<b>Estimated Co-Investments</b>					<b>1.20 -1.40 Bn</b>
<b>Estimated Leverage Factor</b>					<b>2.2</b>

Wielkopolskie is among the most developed regions in Poland with strong economic performance and low unemployment rates relative to the rest of Poland, attracting considerable interest in investors. The Wielkopolskie Voivodeship was amongst the first regions in Europe to establish FIs for urban development. Wielkopolskie achieved the highest allocation rate of JESSICA funds so far - as of date almost 97% of funds available under JESSICA have been already accounted for through loan agreements signed with final beneficiaries.

As described in detail in Chapter 7.3. 7.3 *Case Study Conclusions* in Part I of this Study, the Project Team proposed equity and guarantee products, along most popular loans as they address existing market inefficiencies in commercial financial markets. Despite best understanding of loans as financial products by potential beneficiaries, their use often merely improve project economics but do not “unlock” the project financially (i.e. do not provide necessary funding to enable project development due to insufficient developer’s equity) that might be achieved by using guarantee and equity instruments.

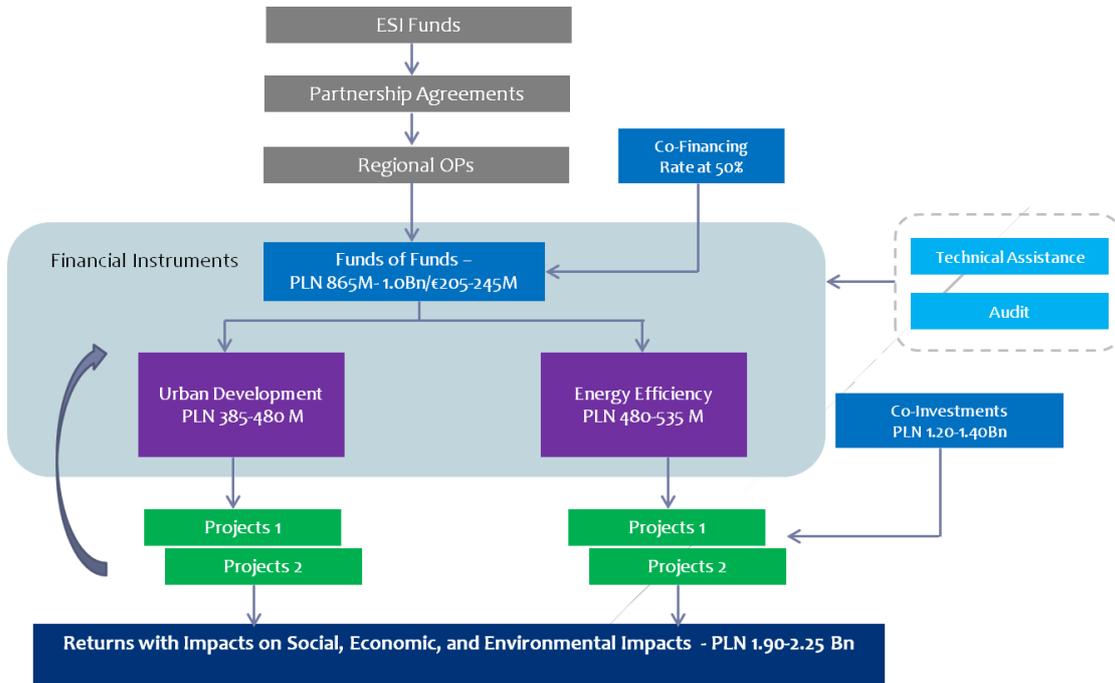
As Wielkopolskie was a pioneer in setting up FIs, it is possible to transfer the management of FIs from the EIB which is the Holding Fund manager to the MA for Direct Implementation. This would have to be carefully considered by MAs if there are sufficient human resources and internal capacity to do so. It is possible to adopt the FI strategy from the current period to focus on urban regeneration and SME infrastructure, however based on the Questionnaire and the market analysis as described in detail in Chapter 8 *General Definition of Financial Gap* of Part I of this Study, it is recommended that a UDF focusing on energy also be set-up.

- **Urban Development** – There is considerable redevelopment opportunities along the Warta River and other municipalities. To ensure focus is given to other cities, ring-fencing certain funds for small-medium sized cities could be a possibility. One of interesting leads to be analysed in detail as part of an ex-ante assessment are the regeneration need of City of Poznań that submitted two large-scale projects, one of them being subject to the Case Study. We believe that the project of Warta River regeneration is a feasible project of regional importance that will be challenging to finance by the municipality on its own. Therefore, MA might consider ring-fencing some funds for redevelopment needs of city of Poznań as it has been proposed for the city of Łódź in Łódzkie.
- **Energy** – There is considerable scope for energy projects based on the number and total value of project submissions. There is very good conditions for developing renewable energy, in particular biomass production, as well as expansion of municipal district heating infrastructure for the purpose of eliminating low emission sources (as in the case of Szamotuły district heating project). We have estimated the market needs in this area for Wielkopolskie at ca. EUR 100 M and believe that such projects form viable project pipeline. Other energy projects could focus on waste-to-energy and street lighting. Most of projects in this category present revenue generating projects

with healthy economic rationale and some of them need mild intervention to help them unlock. In some of cases, mere contribution of initial phase equity (along with the project developer) and FIs mitigating to certain extent the construction and market risks mostly feared by commercial lenders (esp. electricity price and changes in the support system for renewable energy and co-generation).

Based on the analysis, an estimated FI is PLN 865 M - 1.0 Bn/€205 - 245 M.

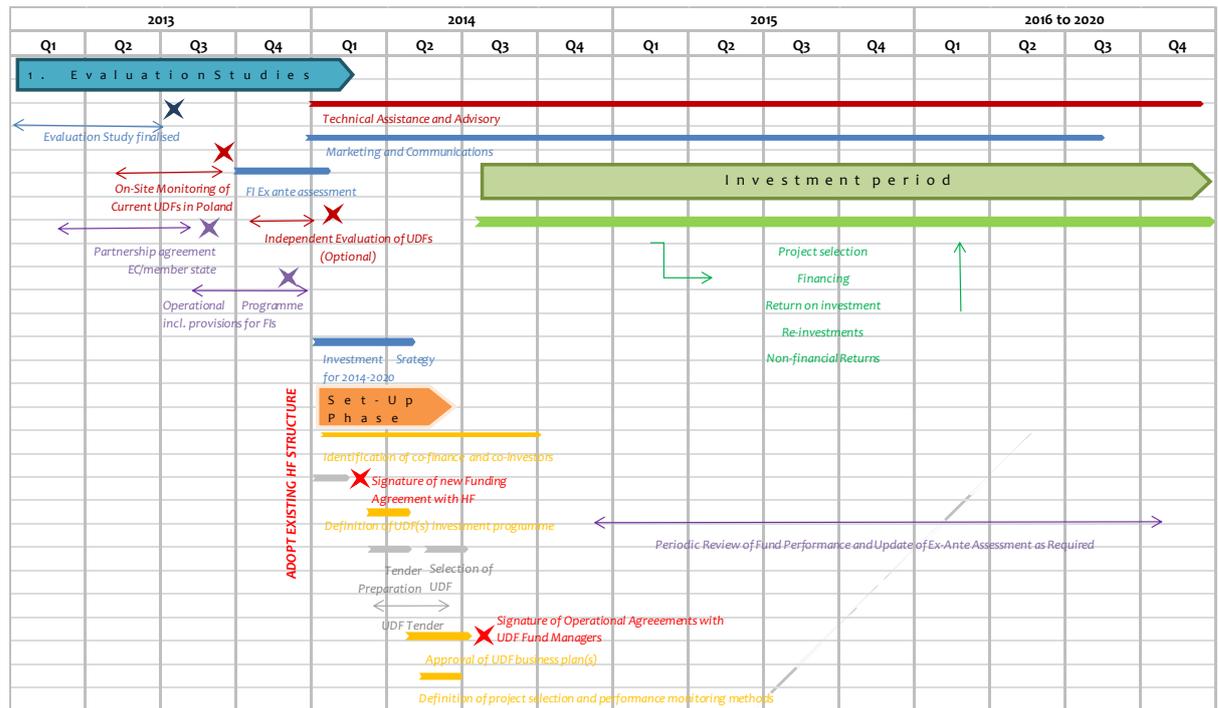
**Figure 130: Indicative Organisational Scheme for Wielkopolskie**



As Wielkopolskie is implementing JESSICA in the 2007-13 Programming Period with the EIB acting as the Holding Fund manager, it is possible to adopt the existing governance structure for the next 2014-20 Programming Period. In such case, and subject to an ex-ante assessment allocations from ESI Funds could be transferred to the EIB and in the capacity as the Fund of Funds Manager, the EIB should launch a tendering process for UDF Managers in due course. In doing so, this will significantly reduce the set-up time associated with the procurement process which can take between 6 to 12 months, and enable to the instrument to start making investments into suitable projects as early as mid-2014. Further discussions will be required in due course should Wielkopolskie wish to explore this option.

Otherwise, pursuant of Article 38 CPR, Wielkopolskie can seek a Fund of Funds Manger via a public contract in accordance with applicable public procurement law.

Figure 131: Indicative Implementation Timescale for Wielkopolskie



## 1. REGIONAL POLICY CONTEXT

## 1.1. Analysis of the general conditions for urban development in Zachodniopomorskie Region



Area (ths km <sup>2</sup> )	22,892
Population (ths 2012)	1,721
Urbanisation ratio*	68.9 %
Unemployment rate (2012)	16.5%
Relative average salary** (2011)	90.7

Source: The Central Statistical Office

\* urban population as percentage of total population

\*\*average monthly gross salary to the national average (Poland = 100)

## 1.1.1. General Presentation and Experience to Date

**Key features and challenges of the Region's urban areas**

Located in north-western Poland, Zachodniopomorskie is a diverse Region with 63 cities and 3,062 rural settlements. The urban population stands at 1.2 M, representing 68% of the Voivodeship's population. Majority of cities are concentrated along the northern and western borders of the region. The Region's urbanisation ratio exceeds the national average at 60.2%. The Greater Szczecin metropolitan area (municipalities of Szczecin and Stargard Szczeciński, and 9 communes - Goleniów, Gryfino, Stare Czarnowo, Police, Dobra, Kołbaskowo, Kobylanka, Stargard Szczeciński and Nowe Warpno) is Zachodniopomorskie's main economic and industrial centre and has 24% of the Region's population.

The Voivodeship's coastal belt is prime to further develop its tourism industry, whilst the southern part also has potential due to its favourable conditions and picturesque forest. The central areas of the Region are dominated by large-scale farming, many of which are remnants of the state-owned farms inherited from historical German estates. Cities such as Świnoujście, Dziwnów and Koszalin, in addition to being major sea and fishing ports, are also developed as major health and spa resorts converted from mansion blocks and health spa centres built before the Second World War. The main urban policy challenges and issues of the Zachodniopomorskie Region include:

- many historical monuments are in poor condition;
- gradual deterioration of public buildings, many of which have not been renovated from the post-war era;
- areas with high level of deprivation, characterised by high crime rates, high poverty rates, long-term unemployment and social exclusion, and low economic activity.

Some major developmental challenges within the Szczecin metropolitan area include: its relative isolation from the capital city of Warsaw; the lack of an integrated mass transport system, poor infrastructure in general to support large-scale sporting or cultural events, and poor coordination with respect to urban planning.

## Experience in using Financial Instruments

The Zachodniopomorskie Voivodeship has experience in implementing FIs with the JESSICA initiative in the 2007-13 Programming Period. There are 14 projects financed under the JESSICA as of 30<sup>th</sup> September 2013 with total value of PLN 117.3 M, all related to revitalisation and regeneration. The MAs decided to take advantage of the FIs for a number of reasons including testing the readiness of absorbing EU funds through FIs, to gain experience with using revolving-type instruments, and to test the effectiveness in the Voivodeship. Two UDFs operate in the Zachodniopomorskie Voivodeship, including:

- Szczecin Metropolitan Area, with BZ WBK as the Fund Manager; and
- Areas outside SMA, with BOŚ as the Fund Manager.

The experience to date in implementation of projects through the JESSICA initiative was generally very positive, however, there were some issues worth mentioning:

- The delay in adopting relevant regulations and issuing guidelines on using FI created bottlenecks in the implementation, therefore, it took longer than anticipated to make investments into projects;
- The requirement that projects must be included local revitalisation programmes resulted in delays in terming whether projects were eligible;
- FIs via JESSICA were available in parallel with grant-funding for urban development and regeneration. As such, the investors naturally preferred using the grants over the FIs, resulting in low initial interest in FIs via JESSICA;
- Several beneficiaries experienced problems with preparation of their applications; and experienced time consuming banking procedures on UDFs' side unduly extended the timescales;
- On certain occasions, the decision making process on the investor side also experienced problems: for example after receiving final project approval, SMA authority delayed final decisions and finally resigned from financing (due to other potentially available financings).

In addition to the experience in implementation of the JESSICA initiative, the Zachodniopomorskie Voivodeship has had a longstanding and extensive experience in using guarantee instruments. Next to the JEREMIE initiative delivered support measures addressed to SMEs, the Region has also benefited since 2002 from the operation of the Zachodniopomorski Regional Loan Guarantee Fund, which has until now provided loan guarantees of total value exceeding PLN 270 M<sup>71</sup>.

### 1.1.2. Description of the Zachodniopomorskie Region and the key priorities for the Region's development

#### Urban areas in the Region

Situated on the Baltic coast, the regional capital city of Szczecin (405.6 ths inhabitants) is an important commercial centre, with focus on such maritime industries as shipbuilding and fishing as well as steel production. Other large cities of the Region with significant growth potential include: Koszalin, Stargard Szczeciński and Świnoujście. One of the undesirable processes in evidence in the central districts of those cities has been their declining attractiveness for the population. Therefore, the representatives of the Region have identified improving the quality of the housing stock and its supporting infrastructure, and development of attractive public spaces as the prime developmental objectives for those areas.<sup>72</sup>

#### Key strategic documents in the context of urban development

The objectives of the current Zachodniopomorskie Voivodeship Development Strategy adopted in 2010 focus primarily on: strengthening the Region's economy and capacity for innovation; promoting social

<sup>71</sup> Information about guarantee activity of Zachodniopomorski Regional Loan Guarantee Fund Ltd as on 31.12..2012 r.

<sup>72</sup> Development Strategy the Zachodniopomorskie Voivodeship

cohesion; and protecting the environment. The Strategy refers to development of potential of: the Szczecin Metropolitan Area, the seaports, the Odra river and the coastal belt. These strategic assumptions are quite achievable, particularly taking into account that the fact that the Zachodniopomorskie Voivodeship is the 7th among Polish regions in terms of GDP per capita.

Revitalisation of the highly urbanised areas is not a priority objective of the Strategy, rather the Strategy of the Voivodeship stated that one of the six directional objectives of the priority objective of preservation and protection of natural values, rational and sustainable management of resources. The indicator used in monitoring implementation of revitalisation interventions is the number of local government and private sector projects aimed at revitalisation of urban areas.

### **1.1.3. Experience in programmes / initiatives focusing on urban development, implemented in the Region**

The most important experience in the Region relating to implementation of urban projects stems from implementation of the Regional Operational Programme for the 2007-2013 Programming Period. Revitalisation interventions have been undertaken under the rubric of two of its measures: 5.5 and 6.6. The first of these is addressed to the areas located outside the Szczecin Metropolitan Area whereas measure 6.6. applies exclusively to the areas located within SMA. In both cases the Programme identifies a sub-measure to be supported through subsidy financing (sub-measures 5.5.1 and 6.6.1) as well as a sub-measure to be supported through FIs provided under the JESSICA initiative (sub-measures 5.5.2 and 6.6.2).

To be eligible for support under both measure 5.5 and measure 6.6., projects need to be consistent with the Local Revitalisation Programmes adopted by territorial self-government units.

#### **Figure 132: Sample experience in implementation of urban development projects financed within the ROP**

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Since June 2012 the municipality of Świnoujście has implemented a project of “Reconstruction of a Park at Chopina Street in Świnoujście”. Located in the centre of Świnoujście, the revitalised park includes pedestrian pathway pavements and landscape development which previous was in a state of despair. The reconstruction project aims to enrich the park’s functions by adding to them certain leisure and recreational facilities for the residents. The project includes the design of a diversified recreational programme involving the use of landscaping elements of street furniture made of accessible materials. Total project value stands at PLN 4.2 M, of which PLN 2.1 M is being financed within the current ROP.

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Source: Marshal’s Office of the Zachodniopomorskie Voivodeship

### **1.1.4. Description of the draft assumptions to new ROPs**

#### **Regional Operational Programme for the Zachodniopomorskie Voivodeship for the years 2014-2020**

Assumptions to the new Regional Operational Programme for the years 2014-2020 are yet to be presented at the time of this Study. The document is currently in an advanced phase of preparation, but assumptions are very general. As part of the preparations of the assumptions to the Regional Operational Programme, the Marshal Office of the Zachodniopomorskie Voivodeship has recently proceeded through the process of public consultations.

Moreover, the draft of priority axes was elaborated, three of which are financed from ERDF and ESF funds. The draft was also presented at the Office of the Sejmik and to the convent of representatives of the local self-governments. In order to proceed with further works, MA is awaiting certain guidelines and interpretations. Tenders for the ROP ex-ante evaluation and the Strategic Environmental Assessment have been launched on the June 18<sup>th</sup> 2013 by the Marshal Office.

## Zachodniopomorskie Voivodeship Development Strategy 2020

A revised Strategy to align its strategies to the new Programming Period is yet to be adopted. The current binding version of the Strategy adopted in 2010 outlines revitalisation as one of the objectives subordinate to the priority objective of preservation and protection of natural values, rational and sustainable management of resources.

### Local Revitalisation Plan

In order to identify projects that could potentially use FIs, a literature review was carried out of the Local Revitalisation Plan for the City of Szczecin, which outlines the planned activities to be implemented in a delimited area of the city in the years 2011-2016. These are, among others, the following:

- Revitalisation of quarter 21: Modernisation of townhouses and annexes, with adaptation of units for retail services and social use, and development of public spaces (a sub-project of the integrated “Centre” project) – estimated value of PLN 180 M; investor: Szczecińskie Centrum Renowacyjne Sp. z o.o., a private investor;
- “Kompleks HANZA TOWER”, a 5 star hotel (building of Stara Dana) (a sub-project of an integrated project for an area encompassing the City Centre Quarters) – estimated value of PLN 30 M; investor: J.W. Construction S.A.;
- “Lipcowy Dom” – renovation of a building at 16a 5-go Lipca Street and adaptation for a student hall of residence, with the retail trade and services function – estimated value of PLN 16 M; investor: OKAM DEVELOPMENT Sp. z o.o.;
- Revitalisation of quarter 33 of Szczecin delimited by the Piastów Avenue and B. Krzywoustego, B. Śmiałego and J. K. Chodkiewicza streets (a sub-project of an integrated project for an area encompassing the City Centre Quarters) – estimated value of PLN 40 M; investor: Szczecińskie TBS Sp. z o.o. – a project also notified in the Questionnaire;
- Construction of a multi-storey above-ground car park at Papieża Jana Pawła II Avenue and Wielkopolska Street – estimated value of PLN 13 M; investor: Nieruchomości i Opłaty Lokalne sp. z o.o.;
- “Tradition as the foundation of modern city development” – Revitalisation of buildings at 86-89 Kolumba Street – estimated value of PLN 12 M; investor: Zachodniopomorskie Economic Development Association – Szczecin Enterprise Centre.

### Figure 133: Sample experience in implementation of revitalisation projects

One of the projects implemented in Szczecin as part of the Local Revitalisation Programme of 2005 involved reconstruction of a historic tram depot at Niemierzyńska Street; to house the Museum of Technology and Transport. This revitalisation of the old tram depot for cultural purposes received financial support from the European economic area financial mechanism and Norwegian financial mechanism in an amount of ca. EUR2.3 M, with the remainder of the costs covered from the city budget. The Museum was established in 2006 while the renovation works involving adaptation of the former tram depot to the new museum function and provision of the Museum of Technology and Transport with complete exhibition, storage, office and conservation infrastructure were carried out in the years 2009-2010.

Source: Local Revitalisation Plan of Szczecin, [www.muzeumtechniki.eu](http://www.muzeumtechniki.eu)

#### 1.1.5. Smart Specialisation Strategy

The Smart Specialisation Strategy is currently being developed. The fields of key smart specialisation in Zachodniopomorskie include:

- bio-economy (based on the Region’s natural resources and its economic, and science and research potential);

- maritime and logistics activity (including maritime technology, the industry steadily set in the region, but which has to face current challenges);
- metal and machine sector (the Region has an increasing amount of companies in this sector, there is also an increasing offer of industrial parks, valuable experience connected with shipping industry);
- knowledge-based services (dynamically developing ICT industry, and business support institutions or creative industries)
- tourism (using nature and cultural heritage resources).

## 2. FINANCIAL INSTRUMENTS & CASE STUDY ANALYSIS

### 2.1 Initial identification of supply and demand, including previous market failures

#### 2.1.1. Supply side

On the supply side analysis, all business environment institutions (including supporting SMEs) are taken into account.

##### 2.1.1.1. Description of the FIs currently available in the Region

In 2012, 5 loan funds, 4 guarantee funds<sup>73</sup>, 1 seed capital fund and 1 business angel network operated in the Zachodniopomorskie Voivodeship.

Figure 134: Key players in the regional FI market

<b>5</b>	<b>Loan funds</b>	<b>Guarantee funds</b>	<b>4</b>
	<ul style="list-style-type: none"> <li>• Zachodniopomorski Loan Fund</li> <li>• Entrepreneurship Development Fund (Foundation - Innovation and Entrepreneurship Centre)</li> <li>• Fundacja Centrum Innowacji i Przedsiębiorczości)</li> <li>• Loan Fund (Koszalińska Regional Development Agency) Regional Loan Fund POMERANUS</li> <li>• Szczeciński Loan Fund</li> </ul>	<ul style="list-style-type: none"> <li>• Credit Guarantee Fund Ltd. in Stargard Szczeciński</li> <li>• POLFUND Credit Guarantee Fund</li> <li>• Szczecin Economy Development Fund</li> <li>• Zachodniopomorski Regional Loan Guarantee Fund Ltd</li> </ul>	
<b>1</b>	<b>Seed capital funds</b>	<b>Business angel networks</b>	<b>1</b>
	<ul style="list-style-type: none"> <li>• Seed POMERANUS Capital Fund</li> </ul>	<ul style="list-style-type: none"> <li>• AMBER Business Angel Network</li> </ul>	

Source: *Ośrodki Innowacji i Przedsiębiorczości w Polsce 2012 – raport końcowy* (Centres of Innovation and Entrepreneurship in Poland 2012 – Final Report), Association of Organisers of Innovation and Entrepreneurship Centres in Poland, Warsaw 2012

##### 2.1.1.2. Guarantees

In 2010, the combined guarantee capital of PLN 114.3 M ranked the Zachodniopomorskie Voivodeship second in the country (behind the Kujawsko-Pomorskie Voivodeship)<sup>74</sup>. Most recently some changes occurred at the top of that national ranking; resulting from implementation of the JEREMIE initiative. The leading contributor to the successes of the Region in the field is the Zachodniopomorski Regional Loan Guarantee Fund, which in 2010 alone granted a total of 343 guarantees, achieving the 6th position in the country in terms of activity. Implementation of the JEREMIE initiative substantially increased the guarantee delivery capacity dedicated for SMEs.

#### The Zachodniopomorski Regional Credit Guarantee Fund Ltd.

Zachodniopomorski Regional Loan Guarantee Fund Ltd. was formed in June 2002, managed by the Zachodniopomorskie Voivodeship Self-Government and the Koszalin Regional Development Agency PLC. The fund is able to provide SMEs with guarantees of up to 80% of loan value and in amounts not exceeding PLN 1 M. It grants guarantees with tenors of up to 66 months. Since its inception until the end of the year

<sup>73</sup> *Ośrodki Innowacji i Przedsiębiorczości w Polsce 2012 – raport końcowy* (Centres of Innovation and Entrepreneurship in Poland 2012 – Final Report), Stowarzyszenie Organizatorów Ośrodków Innowacji i Przedsiębiorczości w Polsce, Warsaw 2012.

<sup>74</sup> *Raport o stanie funduszy poręczeniowych w Polsce – stan na dzień 31.12.2010r. – raport końcowy* (Report on the condition of guarantee funds in Poland – status as at 31 December 2012 – Final Report), Krajowe Stowarzyszenie Funduszy Poręczeniowych, PAG/Uniconsult, Warsaw 2011.

2011, the Fund granted 2,272 guarantees totalling more than PLN 235 M. Those guarantees secured commercial loans of total value of PLN 471 M. The Fund is also one of the institutions implementing the JEREMIE initiative in the Region.

### **2.1.1.3. Loans**

In 2010 the Zachodniopomorskie loan funds granted loans amounting in total to PLN 50.1 M, thus putting the Region at the 2nd position in national rankings (behind the Małopolskie Voivodeship)<sup>75</sup>. In the same year, total loans outstanding in the Region amounted to PLN 89.7 M (number 1 position in the country).

One of the loan funds active in the Region is the POMERANUS Regional Loan Fund that addresses its offer to micro- and small enterprises, whose access to bank loans is limited. The maximum loan amount is PLN 500,000.

### **2.1.1.4. Equity**

There is 1 seed capital fund (POMERANUS SEED Capital Fund) and 1 business angel network (AMBER Business Angel Network) operating in the Region. Neither of the two entities declares any business sector related preferences; they rather seek out and accept innovative and high growth projects. The POMERANUS SEED Capital Fund has invested, among others, in: an education and entertainment software – Animagic Kids EduTainment Group; an internet based employee competence assessment system – Inspeo; and a financial advisory project – FinPack. The flagship investment of the AMBER Business Angel Network is, among others, a producer of the Lemon&Orange mobile apps and of the Enterso software.

### **2.1.1.5. JEREMIE**

The Zachodniopomorskie Voivodeship has provided for the JEREMIE initiative under its development programme's sub measure 1.3.4, Other than subsidy FIs for SMEs; with PLN 280 M allocated for refundable support for enterprises. The funds are distributed through 7 loan funds, 4 guarantee funds and 4 banks. The maximum loan provided under the JEREMIE initiative amounts to PLN 500,000 with the maximum financing term of 5 years.

Total value of guarantee agreements signed with those Financial Intermediaries stands at PLN 219.5 M (as at 19 November 2012). The number of small and medium enterprises having received this type of support stands at 1,938 (as at 31 January 2013).

## **2.1.2. Demand side**

### **2.1.2.1. Prevailing urban development project typologies that could be eligible for JESSICA-type financing<sup>76</sup>**

In terms of the four key sectors of support identified by the Project Team, the greatest number of disclosed projects represented the revitalisation of urban areas (15) category. The remaining categories ranked as follows: social infrastructure (4), energy (2) and business support institutions (2).

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<sup>75</sup> *Diagnoza stanu sektora funduszy pożyczkowych w Polsce według stanu na 31.12.2010r.* – raport końcowy (Diagnosis of the condition of the loan funds sector in Poland, as at 31 December 2010 – Final Report), A. Alińska, Warsaw 2011.

<sup>76</sup> Defined in this context as FIs to be used for broadly defined urban development projects in the Programming Period 2014-2020, therefore sector eligibility might differ from eligibility rules under current JESSICA.

Figure 135: Number of projects by sectors and subsectors

15	<b>Revitalisation of urban areas</b>	<b>Energy</b>	2
3	Revitalisation of post-industrial and post-military sites	Energy efficiency	2
		Waste management	0
		Photovoltaics	1
8	Comprehensive refurbishment of run-down buildings	Other renewable energy sources	1
		District heating	2
8	Other	Other	1
4	<b>Social infrastructure</b>	<b>Business support institutions</b>	2
1	Schools and nurseries	Research and development / innovation	1
0	Hospitals and long-term care	SMEs	1
0	Social and council housing	Business incubators and technology parks	2
2	Public buildings		
2	Other	Other	1
1	<b>Sustainable transport</b>	<b>Other</b>	5

Source: Proprietary work, derived from the Questionnaire

Note: Some projects have been classified into more than one category, and hence the sum of projects after counting all categories exceeds the total number of submitted projects.

Figure 136: Demand among sectors for respective Financial Instruments

Sector	Equity instruments	Loan	Guarantee	Grant	No response	Total
Revitalisation of urban areas	1	6	0	3	5	15
Energy	0	2	0	0	0	2
Social infrastructure	1	1	0	1	1	4
Business support institutions	0	1	0	1	0	2
Sustainable transport	0	1	0	0	0	1
Other	1	1	0	2	1	5

Source: Proprietary work, derived from the Questionnaire

#### 2.1.2.2. Potential appetite of final recipients (including municipalities) for the use of FIs in urban development

Among the 21 projects submitted through the Questionnaire, only 7 named grants as their preferred source of funding. This contrasts with the rest of Poland, where – in majority of the Regions – the potential beneficiaries expressed preference for grants. This validates the introduction of the FIs in the Region in the current Programming Period; as it ultimately translates into a substantial increase in trust and interest in FIs. The declarations of the possible use of FIs included project promoters off all categories and representatives of all of the identified thematic areas.

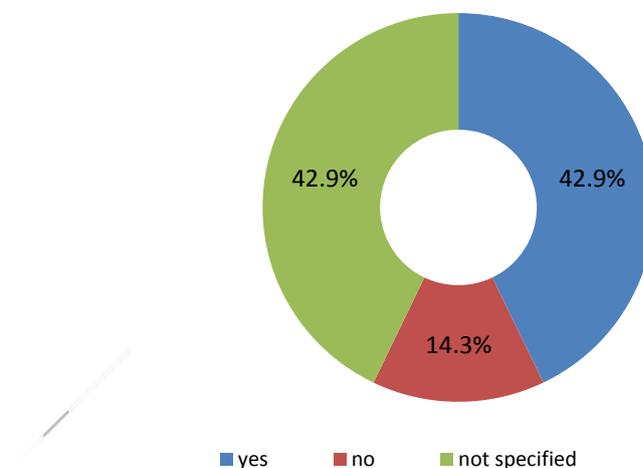
Figure 137: Demand among beneficiaries for respective Financial Instruments

Beneficiary type	Equity instruments	Loan	Guarantee	Grant	No response	Total
Territorial self-government units	2	0	0	6	4	12
Public sector companies	0	0	0	0	0	0
Private sector companies	0	2	0	0	0	2
Research institutions	0	0	0	0	1	1
Other	0	5	0	0	1	6
<b>TOTAL</b>	<b>2</b>	<b>7</b>	<b>0</b>	<b>6</b>	<b>6</b>	<b>21</b>

Source: Proprietary work, derived from the Questionnaire

Moreover, it is worth noting that only 14.3% of the potential beneficiaries exclude the possibility of using FIs should the grants not be available for their planned investment projects which is significantly lower than the average in all 9 Regions analysed.

Figure 138: Interest in FIs if they were the only form of financing for projects available in the 2014-2020 Programming Period



Source: Proprietary work, derived from the Questionnaire

Previous experience of the Region indicates that private sector operators have demonstrated greater interest in FIs than territorial self-government units. Out of the total of 14 agreements signed under the JESSICA as of 30<sup>th</sup> September 2013, the majority was developed by the private sector. The FIs via JESSICA in the Zachodniopomorskie Voivodeship has separate channels serving the Szczecin Metropolitan Area and the areas outside SMA. Majority of the demand for FIs has come from the areas outside SMA. According to the Marshal's Office, the factors which account for the past low absorption of JESSICA funds among the Region's territorial self-government units include:

- The need to provide own contribution and the legal maximum debt levels binding on all territorial self-government units;
- Lack of co-operation through Public-Private Partnerships, which would have definitely facilitated implementation of projects using FIs (in the financial dimension). (The Marshal's Office expected PPP projects to develop, which has not happened as yet).

Based on the interview with the representative of the Marshal's Office, combining FIs with grant financing should increase the overall interest in FIs. In the opinion of the representatives of the Marshal's Office, other adjustments that should increase interest in FIs would include partial debt redemption and relaxing the requirements for financing provision. With regards to UDFs, the Marshal's Office suggested that every UDF should have a separate organisational unit that specialises exclusively in the sale and service of the instruments accessible from FIs. In the opinion of the Marshal's Office, this would decidedly improve fund absorption efficiency and the quality of UDFs' co-operation with the beneficiaries and the Marshals' Offices alike.

### 2.1.2.3. Funding urban development

The competitive procedure conducted in respect of measure 5.5.1, Revitalisation of degraded urban areas, yielded 46 project applications, of which 43 were assessed as appropriate. The total financial support requested under those projects exceeded PLN 69 M. Financial support in an amount of over PLN 23 M was awarded to 27 projects. At the technical assessment stage, 29 projects were rejected who was seeking financial support in a total amount of PLN 46 M.

The competitive procedure conducted in respect of measure 6.6.1, Revitalisation of degraded urban areas within the metropolitan area, yielded 30 suitable project applications. Total financial support requested under those projects stood at nearly PLN 41 M. Agreements for financial support were signed with 17 projects in a total amount of ca. PLN 13 M. Thus, 13 projects applying for financial support were rejected totalling ca. PLN 28 M.

The Questionnaire results contribute to the analysis of why funding was not available for some investment projects. Among the investors who notified their projects in response to the Questionnaire, three declared that they had previously made unsuccessful attempts at acquiring external financing: the Czaplonek Municipality applied for financial support within the current ROP; whereas Szczecińskie TBS sp. z o.o. and Kogeneracja Zachód (a CHP operator) applied for financing to the commercial bank.

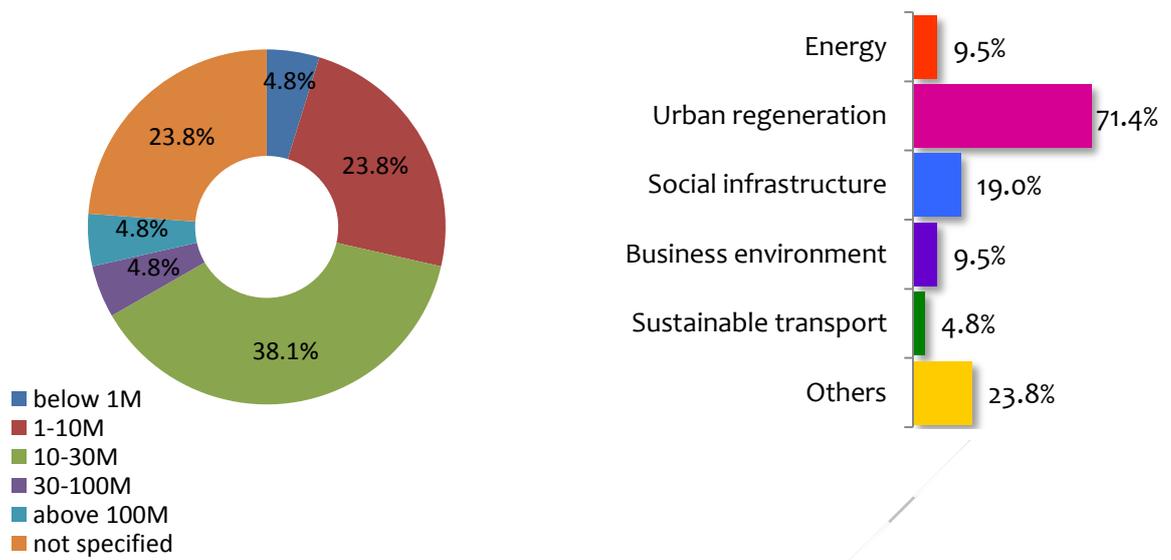
## 2.2 Identification of a potential pipeline and Case Studies

### 2.2.1. Identification of potential projects – Questionnaire

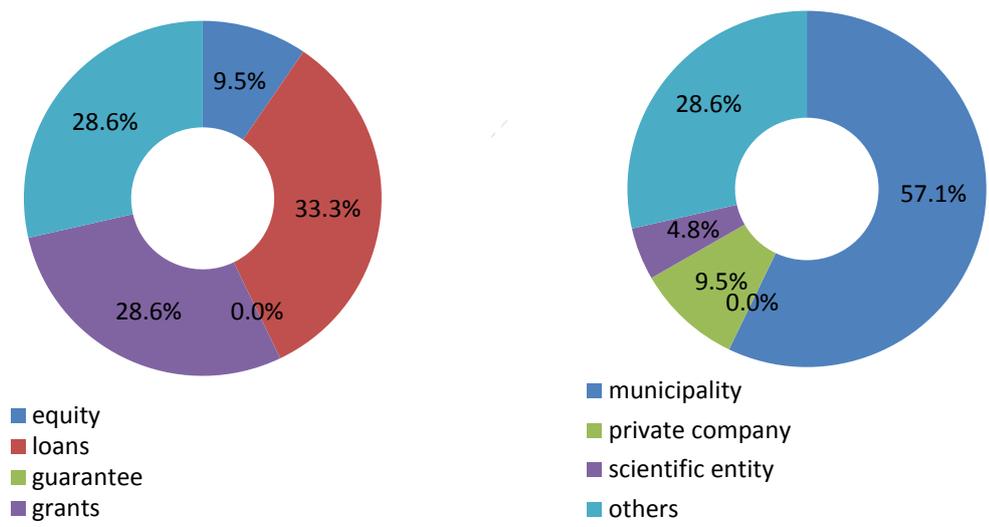
<b>Number of projects</b>	<b>21</b>
<b>Total value</b>	PLN 331.8 M
<b>Average project value</b>	PLN 20.7 M

In the Zachodniopomorskie Voivodeship, 21 projects amounting in total to PLN 331.8 M have been identified. The average project value here stands at PLN 20.7 M and is one of the lowest among all the nine voivodeships under consideration.

**Project value distribution** | **Sector**



**Demand for Financial Instruments** | **Beneficiaries by type**



Source: Proprietary work, derived from the Questionnaire.

The category “other” includes environmental and tourism investments.

**2.2.2. Identified Long List**

The presentation of all projects identified in the Region can be found in Appendix III.

**2.2.3. Presentation of an Interim List**

The presentation of all projects in the Interim List can be found in Appendix IV.

#### 2.2.4. Identification of two Case Studies

Project	Beneficiary	Sector	Value (PLN M)
Redevelopment of the district heating networks and construction in Białogard	Kogeneracja Zachód S.A.	Energy – district heating	27
Renovation and Upgrade of Buildings in the City Centre of Szczecin	TBS "Prawobrzeże" Sp. z o.o.	Urban regeneration	10.5

#### 2.2.5. Detailed analysis of two Case Studies

The presentation of two Case Studies analysed in the Region can be found in Appendix V.

### 3. RECOMMENDATIONS & CONCLUSIONS

Potential project demand for FIs in each of four subsectors have been defined for Zachodniopomorskie as following:

Figure 139: Potential demand for FIs for Zachodniopomorskie

In PLN millions	Energy	Urban	Business Environment	Others	Total
JESSICA-type Equity	90-95 M	115-120 M	10-15 M	5 M	
JESSICA-type Loans	205-210 M	155 -160 M	20-30 M	5-10 M	
JESSICA-type Guarantees	75-80 M	35 – 40 M	5-10 M	5 M	
<b>Estimated FI Size</b>	<b>380-385 M</b>	<b>310 -315 M</b>	<b>50 – 55 M</b>	<b>15- 20 M</b>	<b>660-775 M (€155-180 M)</b>
<b>Estimated Co-Investments</b>					<b>955M – 1.0 Bn</b>
<b>Estimated Leverage Factor</b>					<b>2.2</b>

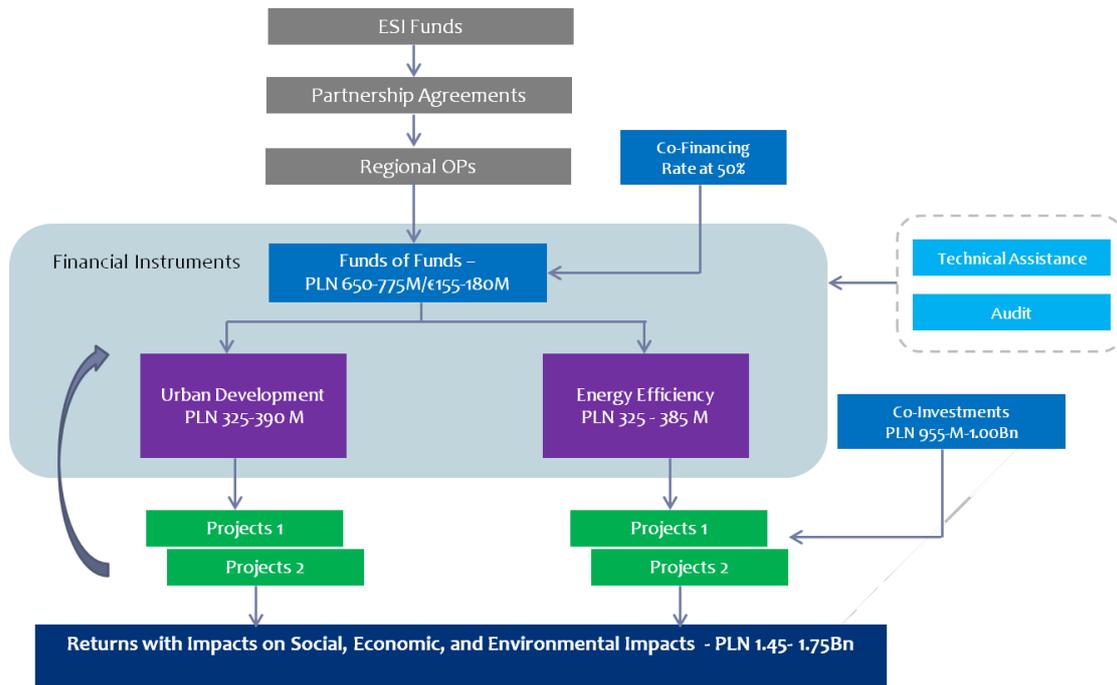
Due to Zachodniopomorskie Region’s strategic location and important transportation on the Baltic Sea and bordering Germany, there is considerable potential for development of urban infrastructure which is the focus of the current UDF in Zachodniopomorskie in the 2007-2013 Programming Period.

Considerable knowledge and experience has been gained and the lessons learnt could be capitalised to accelerate investments in urban projects in the next 2014-20 Programming Period. As in case of other Regions that implemented JESSICA already in the Programming Period 2007-2013, it could be possible in case of Zachodniopomorskie to transfer the management of FIs from the EIB which is the Holding Fund manager to the MA for Direct Implementation. However, this would have to be carefully considered by the MA if there are sufficient human resources and internal capacity to do so. Based on the Questionnaire and the market analysis as described in detail in Chapter 8 *General Definition of Financial Gap* of Part I of this Study, a similar investment strategy of expanding on the urban infrastructure-focused UDFs might be continued, with additional energy-focused UDF recommended:

- Energy** – There are favourable conditions to develop a strong renewable energy, including biomass, solar and wind. Energy-efficiency retrofitting of buildings has formed a strong pipeline of projects in the current Programming Period. Additional projects might be generated in the waste-to-energy, street lighting and district heating sector. The project of CHP in Białogard was one of Case Studies analysed and proved to be viable and mature investing opportunity. We have assessed the market for the small-scale district heating refurbishment in Zachodniopomorskie at over EUR 100 M. Also, due to the location on the Baltic Sea, off-shore wind could also be developed that might create additional boost to local economies and might require additional support to newly-established companies cooperating with the industry. These projects are within the ROP for Zachodniopomorskie for 2014-2020. Most of projects in this category present revenue generating projects with healthy economic rationale and some of them need mild intervention to help them unlock. In some of cases, mere contribution of initial phase equity (along with the project developer) and FIs mitigating to certain extent the construction and market risks mostly feared by commercial lenders (esp. electricity price and changes in the support system for renewable energy and co-generation).
- Urban Development** – revitalisation of city centres to make it more attractive to investors and also to improve the quality of life. Projects could also include regeneration for tourism purposes and promote cultural heritage. The projects focused on the regeneration of post-industry and post-military areas present a still unsaturated part of the urban development sector that will required further financial support. It is recommended that while performing the ex-ante assessment, the MA analyse in detail the market gap for equity instruments as our Study demonstrated a significant niche for this type of instrument.

An estimated FI Size of PLN 650-775 M/€155 - 180 M is recommended.

**Figure 140: Indicative Organisational Scheme for Zachodniopomorskie**



As Zachodniopomorskie is currently implementing JESSICA in the 2007-13 programming period with the EIB acting at the Holding Fund manager, it is possible to adopt the existing governance structure for the next 2014-20 Programming Period. In such case, and subject to an ex-ante assessment, allocations from ESI Funds could be transferred to the EIB and in the capacity as the Fund of Funds Manager, the EIB should launch a tendering process for UDF Managers in due course. In doing so, this will significantly reduce the set-up time associated with the procurement process which can take between 6 to 12 months, and enable to the instrument to start making investments into suitable projects as early as mid-2014. Further discussions will be required in due course should Zachodniopomorskie wish to explore this option.

Otherwise, pursuant of Article 38 CPR, Zachodniopomorskie can seek a Fund of Funds Manger via a public contract in accordance with applicable public procurement law.

Figure 141: Indicative Implementation Timescale for Zachodniopomorskie

