JESSICA

JOINT EUROPEAN SUPPORT FOR SUSTAINABLE INVESTMENT IN CITY AREAS

Jessica in The Netherlands

EVALUATION STUDY

December 2010

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JESSICA Evaluation Study

Feasibility of Sustainable financing of urban development

Client: European Investment Bank

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Rotterdam, December 2010
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1 Summary

1.1 English summary

Joint European Support for Sustainable Investment in City Areas (JESSICA) is a policy initiative of the European Commission (EC), developed with the European Investment Bank (EIB) and in collaboration with the Council of Europe Development Bank (CEB), with the objective of supporting sustainable urban development through financial engineering mechanisms.

JESSICA has been launched, with a view to providing new opportunities to Managing Authorities (further referred to as MA’s) responsible for the cohesion policy programmes by:

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

JESSICA can be used in four different principal ways:

<table>
<thead>
<tr>
<th>Principal ways</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan</td>
<td>Loan to public or private sector to kick start a process. To be paid back after a (long) time with(out) interest</td>
</tr>
<tr>
<td>Subordinated loan</td>
<td>Loan to public or private sector to kick start a process but mainly to attract other investors due to the fact that other investors will have a minimal risk level. Loan to be paid back after a (long) time with(out) interest</td>
</tr>
<tr>
<td>Participation (equity)</td>
<td>To improve leverage to be able to invest or either obtain further loans from banks or private sector investors or other financial institutions</td>
</tr>
<tr>
<td>Guarantee</td>
<td>For loans to public or private sector, to kick start a process. Reduces risks and creates leverage</td>
</tr>
</tbody>
</table>

The revolving use of funding is the central idea. Money can be spent multiple times and therefore more efficiently. When loans will be repaid, guarantees finished or equity can be reused, the funds can be invested in either (other parts of) the same project or in other projects, within the target area of the fund (eg. a specific geographical area, a specific area development, etc.). It permits cities to have a clear and demarcated long-lasting investment channel with regional and EU investment resources.

The conducted research had two main objectives:
- update the findings of the JESSICA Preliminary Study in as far as the Netherlands are concerned (phase I), and to
- launch a focused JESSICA Evaluation Study, aimed at developing a JESSICA pilot scheme for the Netherlands and providing directions for the current (and possibly the next) SF period (phase II).
The evaluation study focused on:
1. the market for urban regeneration projects in regions and cities.
2. the ERDF Operational Programs.
3. specific existing or planned urban investment projects.
4. JESSICA’s potential added value.

If we want to assess JESSICA’s potential value, we need to be aware of the instrument itself (how it functions) but we also need to know in which market JESSICA can be used.

Based on the JESSICA scheme the following selection criteria have been used for the selection of possible case studies:
- presence of an integrated urban development plan;
- state of play: is sufficient information available/maturity of the project (including financial information);
- revenue generating potential (compliance with art. 55 of ERDF-regulations);
- compliance with JESSICA project eligibility criteria.

In addition it has been discussed that geographical spread within the Netherlands would be favourable.

The analysed case studies are:
- Stadshavens Rotterdam (two case studies, Katoenveem (former warehouse to be restored) and The Green Mile (new public transport organisation)
- Binnenhavens Enschede (re-development of harbour complex)
- Belvedere Maastricht (one of the largest area developments in the Netherlands).

The conclusions of the case studies provided us with clear statements that have been used in the SWOT-analysis, in the conclusions about added value and for the necessary conditions to reach the possible added value.

**SWOT-analysis**

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved leverage</td>
<td>Development challenges remain</td>
</tr>
<tr>
<td>Increased assurance</td>
<td>Permanent need for equity and debt</td>
</tr>
<tr>
<td>Possibly cheap money</td>
<td>Decreasing financial facilities for housing associations</td>
</tr>
<tr>
<td>Revolving</td>
<td>Stakeholders enthusiastic</td>
</tr>
<tr>
<td>More efficient than grants</td>
<td>Public grants will decimate in near future</td>
</tr>
<tr>
<td>Flexible, risk reducing</td>
<td>Specialist expertise might increase efficiency</td>
</tr>
<tr>
<td>More capitalisation on private sector know-how</td>
<td>Stable, trustworthy partner to the table</td>
</tr>
<tr>
<td>Holistic approach, higher quality = longer lasting</td>
<td>Increased power public partner at several levels</td>
</tr>
<tr>
<td>Administrative flexibility regarding N+2-regulation</td>
<td>Could evolve in to quality brand</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Weaknesses</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>More JESSICA = less grants</td>
<td>Why loans instead of subsidies?</td>
</tr>
<tr>
<td>Bound by ERDF-criteria and programme volume</td>
<td>Culture: not used to equity/loans</td>
</tr>
<tr>
<td>Many funds already earmarked for this programming period</td>
<td>Urban development more and more complex: increasing complexity, adding risk factor</td>
</tr>
<tr>
<td>The gap between what is needed and what is available through JESSICA could be too big</td>
<td>Economic crisis: problems, gaps too big</td>
</tr>
<tr>
<td>Still under construction: no evidence yet</td>
<td>Political risks</td>
</tr>
<tr>
<td>Need for additional know how and expertise. The MA’s do not have experience with revolving funds.</td>
<td>Fear of State Aid</td>
</tr>
<tr>
<td></td>
<td>Fear of disproportionate new/extra adm/legal/contr. issues</td>
</tr>
<tr>
<td></td>
<td>Conservative attitude towards Europe/EU-funds</td>
</tr>
</tbody>
</table>
Logically, an action plan/implementation plan should address the weaknesses and threats while building on the strengths and seizing the opportunities.

Is JESSICA of added value to the Netherlands? The answer is yes. The question is not only if we can or want to develop, but if we can attract the required capital to redevelop these urban areas. The demand for capital will keep increasing (even faster in the future).

JESSICA is of added value for **National government** (e.g. long term regional investment potential is maintained and the leverage effect will render the use of ERDF resources more efficient), **cities** (e.g. a city is able to develop more spatial projects with the same amount of funds) and also for the **private sector** (e.g. public-supported venture capital and streamline public actions).

What are critical conditions?
- There should be a clear case on the added value of equity/loans instead of subsidies and instead of traditionally available funds and financial instruments: bigger sums, lower rates, better conditions, a trustworthy partner, revolving character and low risk profile. Important here is that loans will not be on the balance sheet of the municipality
- A market gap has to be filled. But the gap might be too big for EFRO for certain projects (multiplier factor is important)
- Crucial is the recoverability (if not than look for (combination with) grants)
- Have a clear view on local cultural and political opportunities, issues and risks
- There should be a positive balance between opportunity costs and (financial) value added

The decision tree is a summary of the practical questions you will encounter when you are in need of funding (by JESSICA).
An important step will be the establishment of different UDF’s or HF’s. How are these organisations governed? What are their responsibilities? Who will be in charge?

The role of a HF could include:

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

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

UDF’s can be established at either a national, regional or local/city level in response to integrated urban development plans, project pipelines and investor interests. UDF’s will themselves be managed by fund managers. The responsibility of the UDF fund manager, within the contractual agreement with the HF or MA, is to:

- Identify suitable urban development projects;
- Allocate contributions from the UDF to urban development projects;
- Monitor and report on progress to a possible HF (otherwise to the MA);
- Collect remuneration on the UDF’s contributions and distribute returns to the contributors to the UDF; and
- Prepare regular financial accounts on the performance (risk assessment and project performance) of the UDF for submission to the HF and other contributors to the UDF.

We foresee four possible organisations:

With a HF:
1. The first possibility would consist of a National HF, with four UDF’s (1 UDF within each ‘region’).
2. A second possibility would be four HF’s (each ‘region’ has his own HF). UDF’s can be established a level necessary at local or regional level within the ‘region’.

Without a HF:
1. A third possibility would be one UDF in each ‘region’ (MA will need to select a UDF itself).
2. Finally a fourth possibility would be no HF’s and only UDF’s where called for (at local and/or regional levels). However this means that a MA cannot rely on a HF for selection and procurement issues.

The next phase is about awareness. All possible stakeholders should become aware of the possibilities and the preconditions that apply to JESSICA. The added value of being able to recover the money and reinvest it (making two euros out of one) should be made apparent. To reach that objective a promotion campaign should be launched.
To give the public and private sector the confidence of the benefits, practical experience is advisable. The only way to do that is to implement JESSICA as an instrument (learning by doing). We will have to run one or more pilots (establish a UDF). It is important that a pilot UDF has sufficient deal flow capabilities. A fund should have a substantial volume to participate in projects. Only with a substantial deal flow capability, funds can be flexible, could attract other private or public investors, and could create leverage. Sufficient deal flow capabilities can make the ERDF-means sustainable within the city.

In this phase we will have to draw up an implementation plan. Most likely a process manager has to be appointed, whose job it is to execute the above listed tasks within a set time frame. This procesmanager would be responsible for the preparation and organisation of the implementation of JESSICA. The tasks and actions that have to be undertaken are listed above. A procesmanager can be appointed at national level –who then coordinates activities throughout the country- or either at regional (or even local) levels, depending on the wishes of the subsequent MA’s.

1.2 Nederlandse samenvatting

Achtergrond
JESSICA staat voor Joint European Support for Sustainable Investment in City Areas (gezamenlijke Europese steun voor duurzame investeringen in stadsgebieden). Het is een initiatief dat wordt opgezet door de Europese Commissie en de Europese Investeringsbank (EIB), in samenwerking met de Ontwikkelingsbank van de Raad van Europa (CEB). Er worden nieuwe procedures opgezet op grond waarvan lidstaten de optie krijgen om een deel van hun EU-subsidies, hun zogeheten Structuurfondsen, te gebruiken voor terugvorderbare en daarna herbruikbare (revolverende) investeringssteun aan projecten die onderdeel uitmaken van een geïntegreerd plan voor duurzame stadsontwikkeling. Deze investeringen, die de vorm kunnen aannemen van kapitaal, kredieten en/of garanties, worden aan projecten toegewezen via stadsontwikkelingsfondsen (urban development funds) en, zo nodig, houderfondsen (holding funds).

Toepassingsmogelijkheden
Mogelijke manieren waarop JESSICA kan worden gebruikt zijn met name:

<table>
<thead>
<tr>
<th>Manieren</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lening</td>
<td>Lening aan publieke of private partijen om projecten op gang te kunnen krijgen. Lening wordt terugbetaald na een afgesproken (mogelijk lange) periode tegen lage rente.</td>
</tr>
<tr>
<td>Achtergestelde lening</td>
<td>Lening aan publieke of private partijen om projecten op gang te kunnen krijgen. In dit geval wordt de achtergestelde lening nadrukkelijker gebruikt als middel om andere private investeerders te kunnen overhehlen. Hun risico is in dat geval lager. Lening wordt terugbetaald na een afgesproken (mogelijk lange) periode tegen lage rente.</td>
</tr>
<tr>
<td>Participatie (eigen vermogen)</td>
<td>Inbreng van vermogen, enerzijds voor het doen van investeringen, anderzijds om een betere verhouding van eigen vermogen vs. vreemd vermogen te realiseren om zodoende andere private investeerders en leningen van banken te kunnen aantrekken (hefboomwerking).</td>
</tr>
</tbody>
</table>
Voorbeeld: een te herontwikkelen, verouderd gebouw, dat op een centrale plek ligt in een stedelijke gebiedsontwikkelingslocatie, wordt met het geld van een gunstig rentende lening opgeknapt en geëxploiteerd. Deze lening, die anders niet of tegen minder haalbare voorwaarden verkregen had kunnen worden wordt via JESSICA verstrekt. De geleende gelden moeten weer worden terugbetaald. Vanwege het revolverende karakter worden revenuen niet teruggeëist door de geldschieter, maar zijn beschikbaar om bijvoorbeeld opnieuw in het projectgebied (of elders op relevante plekken) geïnvesteerd te worden.

Vraagstelling
Dit onderzoek is een verkennende haalbaarheidsstudie en dient als basis voor besluitvorming over verdere stappen ten aanzien van de implementatie van JESSICA in Nederland. Het onderzoek kent twee doelstellingen:

- Het bijwerken van de bevindingen van de eerder in 2006 (ook door ECORYS) uitgevoerde JESSICA voorstudie, voor zover het Nederland betreft;
- Het uitvoeren van een evaluatie van de geschiktheid van het JESSICA-instrument, gericht op het ontwikkelen potentiële pilot en het geven van concrete aanwijzingen voor eventuele implementatie van JESSICA in de huidige danwel de volgende Structuurfondsperiode.

Dit onderzoek heeft zich gefocust op:
- de huidige markt voor stedelijke vernieuwing in regio’s en steden.
- een analyse van de EFRO-operationele programma’s.
- case studies, om specifieke bestaande of geplande stedelijke investeringsprojecten te kunnen evalueren.

Dit heeft geleid tot een evaluatie van de kansen, krachten en belemmeringen, alsnog een beoordeling van de potentiële toegevoegde waarde van JESSICA.

SWOT-analyse: waar liggen de kansen en bedreigingen?

<table>
<thead>
<tr>
<th>Sterkten</th>
<th>Kansen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Versterking verhouding eigen/vreemd vermogen</td>
<td>Stedelijke ontwikkelingsopgaven nemen toe</td>
</tr>
<tr>
<td>Grotere zekerheid voor partners</td>
<td>Permanente behoefte aan kredieten en kapitaal</td>
</tr>
<tr>
<td>Beschikbaarheid goedkoop geld</td>
<td>Afnemende fin. mogelijkheden voor woningcorporaties</td>
</tr>
<tr>
<td>Revolverend karakter (1 euro wordt 2)</td>
<td>Mogelijk betrokken partijen zijn enthousiast</td>
</tr>
<tr>
<td>Efficiënter dan subsidies</td>
<td>Publieke subsidies zullen afnemen in toekomst</td>
</tr>
<tr>
<td>Flexibel, risicobeperkt</td>
<td>Specialistische expertise kan efficiëntie verhogen</td>
</tr>
<tr>
<td>Meer kapitalisatie van private know-how</td>
<td>Stabiele vertrouwenswaardige partner erbij</td>
</tr>
<tr>
<td>Integrale benadering, kwaliteitsgedreven = duurzamer</td>
<td>Grotere borging publiek belang mogelijk</td>
</tr>
<tr>
<td>Administratieve flexibiliteit rondom N+2-regeling</td>
<td>Kan tot kwaliteitslabel ontwikkelen</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Zwakken</th>
<th>Bedreigingen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waarom zou ik een lening willen als ik subsidie kan krijgen?</td>
<td>Meer JESSICA betekent minder subsidies</td>
</tr>
<tr>
<td>Cultuur publieke sector: niet gewend aan</td>
<td>Gebonden aan EFRO-criteria en programmavolume</td>
</tr>
<tr>
<td>kredietverlening/kapitaalverstrekking</td>
<td>Veel EFRO-fondsen al gecommitteerd</td>
</tr>
<tr>
<td>Stedelijke ontwikkeling wordt complexer met hoger risico</td>
<td>Minimale noodzakelijke gevraagde geldsom kan vaak te groot irt beschikbaarheid vanuit EFRO</td>
</tr>
<tr>
<td>Economische crisis: gat kan te groot blijken</td>
<td>Nog vooral een theorie; bewijs gevraagd</td>
</tr>
<tr>
<td>Politieke risico-beleving</td>
<td>Noodzaak tot aanvullende know-how en expertise</td>
</tr>
<tr>
<td>Angst voor staatssteun-verdenkingen</td>
<td>Vrees voor extra administratieve rompslomp/regeldruk</td>
</tr>
<tr>
<td>Vrees voor extra administratieve rompslomp/regeldruk</td>
<td>Conservatieve houding versus Europa</td>
</tr>
<tr>
<td>Stabiele vertrouwenswaardige partner erbij</td>
<td>Grotere borging publiek belang mogelijk</td>
</tr>
<tr>
<td>Stedelijke ontwikkeling wordt complexer met hoger risico</td>
<td>Kan tot kwaliteitslabel ontwikkelen</td>
</tr>
</tbody>
</table>
Per saldo mogelijke meerwaarde of niet? Ja
In principe is er behoefte aan JESSICA in Nederland. De vraag naar beschikbare kredieten en kapitaal om te kunnen investeren in de stedelijke ontwikkeling in Nederland is groot, nu en in de toekomst. De conclusie is ook dat JESSICA van toegevoegde waarde kan zijn voor het tot stand komen van stedelijke ontwikkelingsprojecten. Voor de overheid zorgt JESSICA met name voor langdurig vermogen om te kunnen blijven investeren, door het revolverende karakter van het fonds. Per saldo betekent dit –samen met de hefboomwerking die uitgaat naar het meer kunnen aantrekken van private middelen- voor een meer efficiënt gebruik van beschikbare middelen. Ook zal de publieke rol beter geborgd kunnen worden. Voor de private sector zorgt JESSICA er onder meer voor dat projectinvesteringen eerder van de grond kunnen komen en dat risico’s kunnen worden gereduceerd. Maar het betekent ook dat op termijn er terugkerende middelen voor de steden beschikbaar zijn, waardoor per saldo een hoger volume aan ontwikkelingen mogelijk wordt. Voor alle partijen geldt dat er een onafhankelijke partner met expertise bij kan komen.

Toepasbaarheid JESSICA vraagt goede borging en afwegingen
De uiteindelijke toegevoegde waarde van JESSICA zal afhangen van meerdere criteria en condities en daarmee antwoorden op de volgende vragen:

- Is er een helder zicht op de meerwaarde van het gebruik van kredieten/kapitaal boven beschikbare subsidies; is revolverend karakter mogelijk en wenselijk? Komt er voldoende c.q. aanvullend geld vrij?
- Is er meerwaarde ten opzichte van de bestaande beschikbare middelen bij de overheid (bv. leningen via BNG of Waterschapsbank, participaties via BNG Gebiedsontwikkeling)? Meer geld beschikbaar, lagere rente/dividend, betere voorwaarden, etc? Is het een voordeel als de lening niet op de balans van de overheid komt te staan?
- Is er sprake van marktfalen? Kan dit worden onderbouwd? Worden de aanbestedingsregels in acht genomen? Is er een heldere visie op vermijding van mogelijke staatssteun?
- Kan via trigger money in het kader van JESSICA vervolgens wel voldoende meer ander eigen of vreemd vermogen aangetrokken worden?
- Is er voldoende kapitaal beschikbaar binnen de EFRO-programmavolumes om ter beschikking te stellen? Kan soepel genoeg worden omgegaan met de toewijzing van gelden aan wel/niet winstgevende (onderdelen van) projecten?
- Staan lokale en regionale overheden en politiek achter deze manier van inzet van middelen? Zijn er private partners te vinden voor de inzet van een UDF?
- Staan de extra administratieve kosten/bureaucratie en regelarij in verhouding tot de te bereiken baten? Kan de administratieve procedure relatief simpel gehouden worden?

Een en ander kan –redenerend vanuit projectniveau- praktisch worden samengevat via onderstaande beslisboom.
Als er geen sprake is van een Holding Fund, dan zullen de betreffende MA’s deze taken zelfstandig moeten oppakken.

Een belangrijke vervolgstap is het oprichten van verschillende UDF’s of HF’s. De vraag is hoe zien ze eruit, hoe worden ze gemanaged? Wie is waar verantwoordelijk voor?

De rol van een HF kan bestaan uit:
- Opstellen van beleidkader en business plan voor het fonds
- Beheren van het kapitaal
- Marketing, in relatie tot de doelen van het fonds (zoeken van investeerders en sponsors)
- Oproepen van partijen om voorstellen in te dienen
- Het voeren van onderhandelingen met voorgestelde UDF’s (over o.a. bijdragen etc.)
- Het opstellen van definitieve contracten met participerende UDF’s
- Het monitoren en rapporteren van de voortgang
- Het assisteren van UDF’s op het gebied van staatssteun en andere voorwaardelijkheden

UDF’s kunnen worden opgericht op nationaal, regionaal of lokaal niveau. UDF’s worden geleid door een fondsmanager. Zijn of haar taak bestaat uit:
- Het identificeren van passende stedelijke ontwikkelingsprojecten
- Het allocceren van fondsen naar de betreffende projecten
- Het monitoren en bewaken van de voortgang en het rapporteren daarvan aan een HF
- Zorgen voor middelen om de noodzakelijke kosten te kunnen betalen (bezoldiging van het fonds zelf; management fee etc.)
- Het opstellen van financiële rapportages betreffende de prestatie (risico inschattingen en voortgang van projecten) van de UDF aan een HF en aan investeerders van het fonds zelf.

Wij voorzien vier mogelijke organisaties
- Een nationaal HF, met vier UDF’s (1 UDF per regio)
- Vier HF’s (1 per regio), UDF’s worden opgericht als er per regio, of gebied behoefte aan is.
Een UDF in elk regio zonder dat er sprake is van een HF
Geen HF’s, maar UDF’s worden opgericht als er per regio, of gebied behoefte aan is.

Nu overgaan tot verdere voorbereiding en implementatie
Het is essentieel dat alle potentiële partijen goed op de hoogte zijn en blijven van dit investeringsinstrument en de randvoorwaarden die gelden voor een geschikt gebruik. Dit vraagt om een bewustwordingstraject, bij zowel publieke als private partijen. Om concrete ervaring op te doen wordt het aanbevolen een pilot uit te voeren. Dit zal voor de te betrekken partijen meer zekerheid met zich meebrengen over de verwachte meerwaarde. Daartoe dient dan bij voorkeur een stadsontwikkelingsfonds (UDF) opgezet te worden wat verzekerd zal kunnen zijn van een voldoende omvangrijke en relevante aanwending van de middelen (deal flow) met volstrekt heldere afspraken over criteria/toewijzing, management en verantwoordelijkheden. Het verdient daarbij aanbeveling om deze UDF niet op een te laag schaalniveau op te zetten, zodat het een aanzienlijk verzorgingsgebied (bijvoorbeeld de Randstad) kent van waaruit projecten JESSICA zullen kunnen en willen benutten. Dit is wel afhankelijk van de momenteel beschikbare middelen bij de MA’s. Omdat het merendeel van de financiële middelen al aan projecten is toegekend, zal wellicht een pilot gestart moeten worden met een kleiner fonds (op gemeentelijk niveau). Hiertoe zal ook overleg met de private sector opgestart moeten worden aangaande de deelname in de pilot-UDF en het mede-aanleveren, in samenwerking met de publieke sector, van geschikte vragende projecten.
2 Introduction and approach

2.1 Introduction

JESSICA responds to the request by several Member States and the European Parliament to give special attention to the need for renewal and/or regeneration of certain urban areas. JESSICA has been launched with a view to offering help and providing new opportunities to Managing Authorities responsible for the next generation of cohesion policy programmes by:

- leveraging in additional loan resources for public and private partnerships (PPPs) and other projects for urban development in the regions of the EU;
- contributing financial and managerial expertise from specialist institutions such as the EIB, the CEB and other IFIs;
- creating stronger incentives for successful implementation by beneficiaries, by combining grants with loans and other financial tools; and
- ensuring long-term sustainability through the revolving character of the ERDF (and ESF where eligible) contribution to funds specialising in investing for urban development.

The overall aim of the study is to update the findings of the JESSICA Preliminary Study for the Netherlands as finalised in early-2007 especially in the light of the consequences of the financial crisis and its impact on the available resources for urban regeneration projects. The study will have a particular focus on possible differences between distinct Regions, Provinces and cities. To reinforce the scope of this Preliminary Study for the Netherlands and to provide a solid basis for decision taking on further steps, the Study also has the following objectives.

In an effort to review JESSICA’s potential within the context of respective OPs and to test options for its effective implementation, the Steering Committee agreed to

(i) update the findings of the JESSICA Preliminary Study in as far as the Netherlands are concerned (phase I), and to

(ii) launch a focused JESSICA Evaluation Study, aimed at developing a JESSICA pilot scheme for the Netherlands and providing directions for the current (and possibly the next) SF period (phase II).

Objectives and tasks

Objective 1: To review the market for urban regeneration projects in regions and cities.

1.1 Overview: To provide an introductory overview of the Dutch market for urban regeneration projects, including its institutional and regulatory framework.

1.2 Demand: Review of current investment needs, including identification of (i) prevailing project typologies, (i) related financing requirements and (iii) key market participants (such as individuals, public bodies or authorities, companies, investment institutions and other actors playing a key role as project initiators and promoters).

1.3 Supply: Description of existing public programmes and any other (public or private sector) financial instruments (including existing investment delivery vehicles/structures/funds) available to promote urban regeneration/development and to encourage investment in this sector. This review should also include the description of the ability and capacity of
public authorities and public agencies in regions and cities to provide equity, loans, guarantees and other non-grant financing to urban regeneration projects.

1.4 Identification and evaluation of any gaps between the supply and demand for financial engineering actions and products in the urban investment sector that could be supported by JESSICA. Can JESSICA-type instruments efficiently respond to any market shortcomings in regions and cities?

Objective 2: Review of relevant ERDF Operational Programmes

2.1 Identification of relevant objectives and priorities included in the OPs, which could be met using JESSICA.

2.2 Assessment / estimate of non-assigned OP resources as well as already earmarked OP resources that could potentially be re-assigned to JESSICA financing (e.g. by financing potential Art.55 projects through JESSICA instruments).

2.3 Discussion of how the JESSICA pre-requisite for having in place integrated plans for sustainable urban development is or can be fulfilled in the Netherlands.

Objective 3: JESSICA case studies

3.1 Evaluation of JESSICA case studies, which should at least include:
   3.1.1 Background and rationale of project, including public interest aspects;
   3.1.2 JESSICA/ERDF eligibility criteria;
   3.1.3 Financial analysis of anticipated commercial performance (description of business plan and potential revenue generating capacity);
   3.1.4 Project maturity and timing of implementation;
   3.1.5 Availability of other leverage financing, potential in-kind contributions (e.g. land and buildings) and/or technical resources from both the public and private sectors, which could complement JESSICA on (fund or) project level;
   3.1.6 Type of JESSICA intervention and possible financial delivery mechanism/structure for JESSICA funds to the project, and
   3.1.7 Other key information relevant for JESSICA.

3.2 To demonstrate, if possible, the financial and non-financial advantages of JESSICA financing over grant support or other forms of financing from the market.

Objective 4: JESSICA added value & action-plan

4.1 Analysis of the Strengths, Weaknesses, Opportunities and Threats ("SWOT") of applying JESSICA-type instruments in regions and cities.

4.2 Assessment of JESSICA’s potential added value for the urban regeneration market as well as individual stakeholders (i.e. Managing Authorities, Municipalities, public or private project promoters, and public or private financing partners).

4.3 Formulation of an action-plan, taking into account
   a) the results of the work performed in respect of Objectives 1 to 3 above, and
   b) the possibility of launching a focused JESSICA Evaluation Study, aimed at developing a JESSICA pilot scheme for the Netherlands and providing directions for the current (and possibly the next) SF period.
2.2 Approach

The evaluation study has four objectives:
1. To review the market for urban regeneration projects in regions and cities.
2. To review and analyse the ERDF Operational Programs.
3. To evaluate specific existing or planned urban investment projects.
4. To assess JESSICA’s potential added value

These four objectives are in line with each other. If we want to assess JESSICA’s potential value, we need to be aware of the instrument itself (how does it function) but we also need to know in which market JESSICA is usable. How does that market (of urban regeneration) look like?

This report introduces JESSICA as a new financing vehicle. We will analyse the external market influences (desk research and interviews). At the same time we will analyse JESSICA as an instrument and the effect that JESSICA can have (again through desk research, interviews and case studies). We will also look at evaluation studies that have been done in particularly Germany, Flanders and the UK.

The outcome of the analysis is summarized in a SWOT analysis. This is the basis of the final step. Is JESSICA of any potential value for the different stakeholders or not? An action plan gives a first global overview of the needed steps.

A schematic overview of this study is provided in paragraph 2.3.

Interviews

On behalf of this study we interviewed a fair number of stakeholders. Interviews were held with different possible direct and indirect stakeholders:

- Zjef Bude, Chris Meulemeester, Ministry of Housing and Spatial Planning;
- Keimpe Reitsma and Marcel Brok, National Task-force ‘unorthodox measures’
- Ruud van Raak, Managing Authority West (OP Kansen voor West)
- Marjoos van den Berg and Wilko van Kalkeren, Managing Authority East (OP GO Gebundelde Innovatiekracht)
- Thimmo van Garderen and Edwin Veenhuizen, BNG (Dutch Municipality Bank)
- Raymond van Dellen and Sebastien Garnier, Aedes (Association of housing corporations)
- Jim Schuyt, De Alliantie (Housing corporation)
- Walter de Boer, Rabo Vastgoed
- Han Wiendels, Wilfried Lotgerink (HMO) Restructuring Company Overijssel
- Henk Harms, Proper Stok Groep
- Toon Bom, city of Enschede
- Dennis Damink, Bernardo Korenberg, Michiel van Keulen, city of Rotterdam
- Guid Bartolommei, Jan Collas, Henrik Fokke, Municipality of Maastricht
- Wout van Alphen, Municipality of Dordrecht
- Maike Akkers, Florine Lauwaars, L. Merema, Rotterdam Port Authority
- Paul Jansen, Project Stadshavens
- Dirk Brounen, professor of management and real estate economics, Erasmus Universiteit Rotterdam, Rotterdam School of Management
- Peter van Gool, director of Investment with SPF Pension Fund, professor of Real Estate, University of Amsterdam.

During this assignment we also met up with other possible stakeholders and discussed JESSICA with them as well. JESSICA was not the main topic in a meeting, but was for instance discussed as
one of the possible funding mechanisms for the future. We did so, for instance, in meetings with Frank van Blokland (IVBN, Association of Institutional Investors), Erik Steinmaier (sector banker real estate at ABN AMRO Bank) and Meindert Smallenbroek (director Urban policy at the Ministry of Housing and Spatial Planning).

2.3 Content overview

Chapter 2 gives an overview of JESSICA. It elaborates about what it is, how JESSICA should operate and what the benefits are. In chapter 3, 4 and 5 we will outline the current situation on financing and funding of urban regeneration in the Netherlands. It provides a framework of external opportunities and threats. It defines the boundaries in which JESSICA has to find its place. Chapter 6 discusses several case studies. These case studies should provide answers to questions like: Could JESSICA be of value, and if so, how? What is the big difference between the current situation and possibly if the project is developed under a JESSICA mechanism. In chapter 7 we will summarize and discuss the strong and weak aspects of JESSICA. We will cross-match these findings with the current and future market situation as discussed in the chapters 3, 4 and 5. Here we will sum up the main conclusions on the practical use of JESSICA as a new and sustainable financing instrument in urban regeneration projects. It gives an overview of the added value (chapter 8) and conditions that need to be met for a successful implementation in the Netherlands. Chapter 9 will give a global overview on UDF/HF issues. In the final chapter 10 we look at a possible global action plan. Goal of the action plan is to launch a JESSICA pilot for the Netherlands and to provide directions for the current and next Structural Funds period.
3 Key characteristics of JESSICA

3.1 Background and goals

Background
Joint European Support for Sustainable Investment in City Areas (JESSICA) is a policy initiative of the European Commission (EC), developed with the European Investment Bank (EIB) and in collaboration with the Council of Europe Development Bank (CEB), with the objective of supporting sustainable urban development through financial engineering mechanisms. Under procedures applicable in the 2007-2013 programming period, Managing Authorities in the Member States (MS) of the European Union (EU) are allowed to use some of their Structural Fund allocations through financial engineering instruments supporting urban development. These instruments are Urban Development Funds ("UDF’s") investing in Public-Private partnerships (PPPs) and other projects inserted in integrated plans for sustainable urban development, and – optionally – Holding Funds ("HF’s") that manage operations on behalf of Managing Authorities. JESSICA is a response to the request by several Member States and the European Parliament to give special attention to the need for Urban Regeneration and is based on perceived market failure or market imperfection in the urban sector or, more specifically, on the lack of investment funds to finance integrated urban renewal and regeneration projects in pursuit of more sustainable urban communities.

Goals
JESSICA has been launched, with a view to providing new opportunities to MAs responsible for the cohesion policy programmes by:
– ensuring long-term sustainability through the revolving character of the Structural Funds’ contribution to funds specializing in investing in Urban Regeneration (UDF’s);
– creating stronger incentives for successful implementation by beneficiaries, by combining grants with loans and other financial instruments;
– leveraging additional resources for PPP’s and other projects for urban development in the regions of the EU; and
– contributing financial and managerial expertise from specialist institutions such as the EIB, the CEB, other IFIs and financial institutions.

3.2 The investment model

In order to provide a customized implementation framework for countries, Evaluation Studies are commissioned by the JESSICA Task Force established within the EIB and supported by the CEB, in which different implementation models are proposed. As a general outcome of these studies, the following model (figure 1) was considered in which:
– funding from the Structural Funds is contributed as equity in a Holding Fund;
– a Holding Fund itself invests equity in a UDF;
– the UDF then finances urban development projects via a range of financial instruments (loan, equity, guarantee).

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

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

![Figure 1: JESSICA in theory](image)

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

JESSICA is based on a revolving principle. The revolving use of funding is the central idea. Money can be spent multiple times and therefore more efficient. When loans will be repaid, guarantees finished or equity can be reused, the funds can be invested in either (other parts of) the same project or in other projects, within the target area of the fund. It permits cities to have a clear and demarcated long-lasting investment channel with regional and EU investment resources. The above figure does not show the return of funds in the UDF, but, nevertheless, this revolving principle is one of the basic and strong aspects of JESSICA.

The general implementation framework for JESSICA is provided by following EC regulations:
- Council Regulation No 1083/2006
3.3 The Holding fund (HF) and/or Urban development fund (UDF)

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

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

**Urban Development Funds**
An Urban Development Fund (UDF) is a fund investing in public-private partnerships and other projects included in an integrated plan for sustainable urban development in the form of loan, equity or guarantee. To be eligible for JESSICA funding, the UDF will need to demonstrate:

- sufficient competence and independence of management;
- a comprehensive business plan and budgets for undertaking qualifying projects;
- sound financial backing.

**How are HF’s and UDF’s expected to be organised?**
The terms of conditions for contributions from operational programmes to HF/UDF need to be set out in a funding agreement, concluded between the HF/UDF and the Managing Authority. The minimum context of the funding agreement is foreseen by the JESSICA legal provisions, such as:

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

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

Whilst not specific on legal form, a UDF can be a separate legal entity, or be established as a “separate block of finance” within an existing financial institution. In such cases, JESSICA funds need to be separately accounted for and clearly segregated from the other assets of that financial institution. UDF’s can be established at either a national, regional or local/city level in response to
integrated urban development plans, project pipelines and investor interests. UDF’s will themselves be managed by fund managers. The responsibility of the UDF fund manager(s), within the contractual agreement with the HF, will be to:

- Identify suitable urban development projects;
- Allocate contributions from the UDF to urban development projects;
- Monitor and report on progress to a possible HF (or in the absence of a HF, to the MA);
- Collect remuneration on the UDF’s contributions (loan/interest repayment) and distribute returns to the contributors to the UDF;
- Prepare regular accounts on the performance of the UDF for submission to the HF and other contributors to the UDF (including payment of management fees) and
- For the second round of investing in funds, identify suitable projects etc.....

3.4 How can JESSICA be used in daily practice

JESSICA can be used in four different principal ways

<table>
<thead>
<tr>
<th>Principle ways</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan</td>
<td>Loan to public or private sector to kick start a process. To be paid back after a (long) time with(out) interest.</td>
</tr>
<tr>
<td>Subordinated loan</td>
<td>Loan to public or private sector to kick start a process but mainly to attract other investors due to the fact that other investors will have a minimal risk level. Loan to be paid back after a (long) time with(out) interest</td>
</tr>
<tr>
<td>Participation (equity)</td>
<td>To improve leverage to be able to invest or either obtain further loans from banks or private sector investors or other financial institutions</td>
</tr>
<tr>
<td>Guarantee</td>
<td>For loans to public or private sector, to kick start a process. Reduces risks and creates leverage.</td>
</tr>
</tbody>
</table>

Table 1: Different options
4 Overview of the Dutch market of urban regeneration

4.1 Situation in the Netherlands

4.1.1 Looking back...

Since the 1970's the Dutch approach to urban renewal has changed direction significantly. Initially urban renewal and regeneration was interpreted in the sense of improving the built environment. The approach, which would now be considered somewhat radical, consisted mainly of demolition and reconstruction and some renovation.

As times changed and new insights were gathered urban renewal policies changed. In the early 1980's critique on the post-war approach started to surface. A newfound appreciation for the existing city led to altered approach to urban development. Instead of the demolition and reconstruction the concept of 'city renewal' ('stadsvernieuwing') was introduced. This new concept focused on a smaller urban scale, with housing as a main priority. The arguments for the conservation of existing urban and social structures overpowered economic and mobility arguments.

Renovating existing buildings replaced the demolition practice; urban renewal was placed in a social context where new construction was placed in local spatial and social context. Many different grants were introduced to provide incentives for resident based redevelopment. Despite changing insights urban renewal was still approached in the traditional sense of the built environment.

Eventually this led to as ‘Big City Policy’ (Grotestedenbeleid (GSB) in Dutch). The aim of this policy is to strengthen the position of the major cities and to prevent segregation along socio-economic, civil and ethnic lines. The national government realized that despite its efforts to decentralize policy (as stated in the 1992 policy document), the large cities did require enduring (financial) support from the national state.

<table>
<thead>
<tr>
<th>Dutch national urban renewal policy</th>
</tr>
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<tbody>
<tr>
<td>GSB I -social, economic &amp; physical (housing) approach</td>
</tr>
</tbody>
</table>

Table 2: Overview of renewal policies

As part of the policy specifically targeting the major cities, the government provides all municipalities with 'investment budgets for urban renewal' (Investeringsbudget Stedelijke Vernieuwing, ISV). These budgets are given to municipalities every five years in order to stimulate and support urban renewal. This ISV is a target based benefit that bundles various subsidies from different ministries. The municipalities now receive one collective investment for physical tasks instead of various smaller ones.
The main aim of these investments is not that local governments fully finance local urban renewal, but that the budgets are used to create a multiplier effect. The governments are urged to initiate or direct programs for which public investments are used to trigger private investment from developers, housing corporations, businesses and owner-occupiers. The ISV is meant to trigger money, where every public Euro spent should result in 10 private Euro’s invested.

**Spatial Investments**

A comprehensive study¹ looked at state share of the total spatial investments programme. Spatial investments include investments in land, road and water works (civil engineering works) and property (buildings and houses). The report shows that in recent decades an annual average of 60 billion euros is spent on spatial investments in the Netherlands. In 2007 the amount was 66 billion euros. The figure below shows the evolution in the spatial scale of the investment in the period 1969-2007 show.

![Figure 2: extent of spatial investments 1969-2007, (2007 prices)](image)

The above figure shows land, road and water works (blue) and property (buildings (pink) and houses (red))

The share of all governments’ spatial investments together mounted up to approximately 14 billion euros in 2007, which is approximately 20 percent of the total. This percentage has been similar for decades.

The government parties together invest 70 to 80 percent of all investments in land, road and water works (see blue part). The share of government investment in buildings (see pink part) is 20 to 30 percent. This particularly relates to the investment in public buildings, government departments, schools and cultural amenities. The share of government investment in housing projects is low. The actual contributions of national government and municipalities rely on market developments. Excluding investments in buildings and public expenditure management and maintenance, the investment level of the respective ministries of V & W (infrastructure and works), VROM (housing and planning), LNV (agriculture and food quality) and EZ (economic affairs) together is about 7

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¹ ABF Research (2008), Stedelijke vernieuwingsopgave 2010-2020, Delft
billion euros per year. Part of these funds are provided to municipalities and provinces. They seek proper destinations for these funds, under certain agreed conditions.

4.1.2 Problems ahead……
The State budget for planned spatial investment in 2009 is about 6.6 billion euros. That amount rises to almost 7.0 billion euros in 2010. After 2010 there is a slight decline to 6.8 billion euros. For the period 2015-2019 there is an estimated average amount of 5.6 billion a year for national investments. The figure below shows the development of resources for spatial investments.

Figure 3: Revenue Funds available for spatial development investments, 2008-2020,

In Figure 4, available funds (the blue line) and the necessary resources for the realization of current policy objectives are being compared. It is obvious that there is a growing investment gap.

Figure 4: Revenue Funds available vs necessary resources
4.1.3 Economic crisis
Since 2009, the financial and economic conditions changed dramatically. It has become more difficult to finance projects of good quality and maintain high quality levels in projects. The main problem in financing area development is with obtaining loans. Banks demand high risk premiums resulting in high interest rates. In addition, financial institutions, under the present circumstances, are reluctant to finance substantial long lasting developments. They prefer investing in clear short-term projects that provide a more certain return. Developers and investors suffer from these restraints, since they need these loans to realize these substantial (long lasting) area developments.

Which parties are still up to area development? Who has enough knowledge, skills, commitment and money to fund long-term and large scale developments? There are only a few which still have these qualities.

A fundamental problem is that financial institutions, investors and developers can no longer afford to take risks. Municipalities have the same problems. They see their investment capacity shrink, due to increasing costs while at the same time they see their revenues shrink. The sale of land has been severely halted a result of the crisis. Only a few housing corporations and provinces still have money to invest.

Investors make use of pension fund capital. However, also pension-funds now have difficulties meeting the statutory coverage, making the financing of (risky, long-term) area development even more difficult. Despite the crisis, investors remain interesting and can be considered important partners in urban development. Their knowledge and contacts with end users are very important. They set area development in a broader perspective while they also tend to see area development in its long term perspective.

Through the lack of financing possibilities, developers and investors are increasingly dependent on public contributions and possibly other private funds. Further potential financiers for urban developments are the housing corporations. Despite the crisis they often remain relatively wealthy institutions and are experienced partners in integrated area developments. However, also the housing corporations are relatively low on liquidity, because their capital is invested in real estate. Their equity is undisputed, but their liquidity is dependent on rental income. Despite their large capital and the relatively stable rental income, also corporations see their costs increase. The possibility of obtaining loans becomes more difficult. Corporations fill their cash flow by selling houses, but through to the crisis this market has also stalled.

National Government is another possible partner in financing urban area development. But budgets are being cut so there is less money left to finance major area developments. ‘How to work without money’ is the new slogan of National government. "Despite the existence of the multiannual programme for Infrastructure, Spatial planning, and Transport (MIRT) the National Government hardly has any resources that can fully be used for regional and local area development. Recently, National Government has decided to stop the ISV (financing of urban renewal) in 2015. In parallel, it has called for the use of revolving funds instead of subsidies. The call for a fund, that can finance both profitable and unprofitable parts of an area development, will increase.

Now what?
Area development becomes increasingly complex and expensive, inner-city locations, complex infrastructure, need for transformation and restructuring. For large spatial developments in society
we need a lot of money. And it is currently difficult to find it. There is still money in the market, only in different places and under different conditions.

For all funded projects, the loan-to-value ratio becomes higher and more important. The property financiers do not just start something new, they focus on the financial management of ongoing activities.

Public and private parties with regard to urbanization should anticipate on three developments:

1. The complexity of urbanization (urban renewal and urban regeneration) increases. The relatively easy and inexpensive construction sites inside and outside the city have been used. Now remain those places where diverse interests and area applicants, legal requirements and building restrictions come together. Many of these sites bring with them higher costs, related to accessibility, integration of infrastructure, major water storage, etc. These costs can not always be resolved within budgets.

2. The importance of quality increases. Especially in areas where the housing market relaxes or demand shrinks, consumers have more influence. Besides the quality of the property itself, the consumer expects a quality living environment, good accessibility, green public space etc. Even governments want higher standards. Besides safety and health, the government increasingly expects efficient and sustainable buildings and an economical use of space. Quality also means ongoing investment in refurbishing the existing housing stock with a substantial renovation and demolition programme.

3. The demand for new homes will remain high in the next ten years. The CPB assumes 500,000 new households up to 2020. There are some 250,000 homes that need replacement. National Government aims at a production of about 80,000 houses per year.

The urbanization agreements

Agreements are made with regional parties on the urbanization in the period 2010-2020. It is an approach based on regional differences and a movement from one sector to a more integrated approach. All tools can be used to reach the objectives of housing production and urban renewal. Interventions and support are not only in the form of grants, but the National Government could also play a major role in area development using her landownership and property. The same applies to the use of knowledge and the necessary intervention in laws and regulations or the application thereof.

For the period 2005 - 2009 BLS budget was used to stimulate housing production. The nature of the new housing task is different. The exact quotation of urbanization in 2020 is being formulated by the regions. The final design of BLS has a more or less programmatic or project-oriented character. If BLS in its present form continues, the Government wants to decentralize the BLS funds to the Provinciefonds.

With regard to urban policy, and the associated restructuring of the subsidy budget for housing (ISV), the government keeps this system largely intact. The ISV has, after a technical overhaul, started her third tranche (2010-2014).

Changes in government?

The National Government focuses on the societal level. The Government has to deal with substantial budget cuts (€ 2.5 billion per year from 2015). But at the same time she has to deal with climate change, sustainability, etc.

There is not enough money to finance inner-city building tasks. Therefore National Government is also looking for more unorthodox measures. The government can respond to area development in
different ways. Examples are through interdepartmental alignment, flexible use of laws and regulations, the use of financial resources, land, property and other instruments. The involvement of national government ranges from direct investment (mainly in land, road and water works) to direct participations in large and complex projects. In some cases more substantial additional investments are deemed necessary (eg. water). In almost all plans that are on the table with national government, even after settlement, more or less financial deficits occur. This suggests that simple (development) sites are no longer available.

Area development is surrounded with uncertainty. Costs and revenues (and hence the deficit) are not pre-fixed. Risks and risk management are decisive factors. The national government has always had a pro-active role in area development in The Netherlands, but with the current uncertainties at the markets it could be discussed whether the government could even play a more active role. National government has recently (October 2010) taken the position that investment programmes will increasingly be of a revolving nature instead of grant schemes.

Previous research shows that government contributions are often a catalyst in the development of plans. Without government grants/(active) involvement, plans often do not take off. It can also lead to lesser quality and lesser sustainability with a loss of amenities and adverse societal effects. Furthermore, investments done by government have proven to generate more investments (the so called multiplier effect).

Because of the economic crisis many look for short-term actions. However, these short term actions have quite clearly a major impact on the longer term. Municipalities must make budget-cuts and reprioritize. They have experienced recent elections with new political coalitions and subsequently other policy priorities. The Provinces coordinate and invest where possible. The government has money available for a number of short term solutions, but sees great long-term deficits.

There is a difference of opinion within municipalities on how they should react to future area development:
- reprioritize projects by themselves or just do nothing and let the market (read: the customers, through choosing between projects and locations) make her own priorities;
- to assume a role as "enterprising government" that actually is more involved in real estate (with taking risks in investing resources/funds, under a strict fund management).

Changes in housing corporations

The corporations see a structural decline of investment in their assets. These are mainly a result of central government policy and an increase in costs (liveability, health et cetera). Corporations will have to change from a solvency to a liquidity based organisation. A possible solution to this problem is linking corporations to pension funds and insurance companies. Thus corporations can become investment vehicles (as in Germany already is the case).

Another issue is the ruling of the European Commission at the end of 2009 that housing corporations can no longer invest in activities that are not in line with the definition of ‘services of general interest’. This actively means that housing corporations need to administratively split their investments in functions like commercial real estate, often included in urban redevelopment projects. This also means that they can no longer rely on state supported financial backing as they were used to and will need to find other resources.
**Looking forward**

We will need to get used to a long period of slower growth. The increase of value of property will most likely be similar to the inflation index.

The main question is how area development will be funded in the future? There are some conceivable options. A first option would be to wait until the crisis blows over and hope for the best. A second option is to consider new funding models, of which JESSICA can be an optional funding mechanism.

There is a growing concern that to achieve national policy goals on spatial development in the next decade there will be insufficient Revenue Funds available. Thus, spatial quality (cluttering, pressure on green spaces) as well as availability and affordability of adequate housing are and will remain under pressure.

Recently, national government has decided to stop the BLS immediately as well as ISV (financing of urban renewal) in 2015. In parallel, it has called for the use of revolving funds instead of subsidies.

### 4.2 The division of powers within urban regeneration: what actors are involved?

We will discuss three main actors and their financing and funding arrangements:

a) the public sector;

b) housing corporations;

c) the private sector.

**4.2.1 What is the role of public sector funding and how is it arranged?**

Public finance plays an important role in urban regeneration. Most public parties such as local governments tend to invest in both the acquisition and rehabilitation of land (in case of an active land policy), in the non-profitable elements of urban regeneration projects but also in social policy and socio-cultural activities. Local governments can use direct finance available from their annual budgets or lend money from the public sector Bank Nederlandse Gemeeneten (BNG) at relatively low interest rates and favourable conditions. The BNG has a stable market share of 60 percent within local municipalities and 50 percent within housing corporations. Their major competitor is for the public sector is the national Dutch Waterschapsbank. Private sector loans from public parties are far less common. At the moment, the competition between public sector banks is becoming more fierce. (i.e. on the level of basic points etc).

The BNG has a branch called the Ontwikkelings- en Participatiebedrijf Publieke Sector (OPP). This has been established in 1997 and aims at equity participation in major (public sector) spatial development projects throughout the Netherlands. Projects the OPP is involved in differentiate from the development of a location for an industrial site to urban regeneration projects. The OPP focuses on risk control, from the initial land acquisition and planning activities to sale of the redeveloped area. It participates in both public sector projects and public-private partnerships (PPS), with an important focus on the latter. The most important reason for the BNG to start the OPP was the demand from local governments for neutral and independent support in their spatial developments. The OPP offers equity participation, but also risk management support services. The OPP aims at sharing risks and benefits and limiting risks in such a way that the budgetary authority of the local government is not jeopardized.
Another branch of the BNG is BNG Vastgoedontwikkeling (BVG). This has been established quite recently (in 2005) and operates similar to the OPP, but with a focus on the development of actual real estate (such as social housing, hospitals, schools, prisons etc).

There are several types of loans which are common in the public sector. Many governments use framework loans, while individual loans are increasing. These types of loans are often project-based (e.g. PPP in a major city area) or either incurred by smaller local governments that more often use project-based or task-oriented loans.

In this respect, at first glance, there does not seem to exist any substantial gap in public sector investment needs that commercial/private finance needs to fill.

The European Investment Bank also offers loan facilities to local governments. In the Netherlands, in the field of urban regeneration, practically none of the cities actually borrow money from the EIB or use any of the facilities available at there. There are some Dutch projects that the EIB is involved in, but these mainly cover utility services (e.g. energy infrastructures throughout several industrial sites in the harbour area of Rotterdam).

4.2.2 The role of housing corporations

One of the most important actors in the field of urban regeneration are the housing corporations. They own about one third of the total housing stock in The Netherlands. These public – but independent and self-sustaining- companies tend to invest major sums of money in maintenance of their large housing portfolio, but in recent years have also been increasing their investments in revitalizing large housing areas where they have substantial possessions in terms of housing units. The housing corporations were full public sector institutions until in the 1980’s, but have been partly privatized since then. They still are being supervised directly by the Ministry. Because of the fact that their assets have been gathered with public sector money in the past, the public sector still feels that much of the reserves of housing corporations is actually ‘public money’.

In many cases, in the Netherlands, housing corporations have substantial financial reserves. In addition, they can borrow money at relatively low interest rates and to favourable conditions from their national ‘sector bank’, the Waarborgfonds Sociale Woningbouw (WSW). The Centraal Fonds Volkshuisvesting (CFV) is responsible for control of the financial situation of the housing corporations.

The corporations with substantial reserves are mainly those that operate in medium-sized cities, regional areas etc and not those that operate in inner-city neighbourhoods of the major cities, which have substantially lower reserves because of their bigger investment tasks. The housing corporations have set up a ‘matching scheme’, where rich housing corporations could support poorer corporations who are not up to their urban regeneration tasks with loans, guarantees or equity participation. However, this scheme does not seem to have taken such size as was hoped for.

Generally, for support in equity participation, housing corporations may use the OPP and BVG facilities.

4.2.3 The role of the private sector

Private sector involvement is mostly through the case of a developer who invests in developing the plan and the real estate and then sells the real estate to an investor. In the Netherlands, we can see several types of developers, each with their own character and business model. Broadly speaking, the different types are:
- builder-developers: the developer is part of a larger building company; the main aim is to build and sell;
- specialised developers: pure developers; main aim is to develop and sell; they do not engage in building themselves;
- development branches of housing corporations established in the last few years to meet government criteria relating to splitting activities; they develop higher-end housing etc. in areas where housing corporations own most of the land and/or houses (like Kristal or Far West—the latter has actually recently ended its activities);
- developer-investor companies: often highly institutionalised and linked to main banks. The banking branches invest in products of the developing branch;
- area developers: an upcoming type of developer; mainly interested in integrated area development.

The last three types of developers will usually have a more long-term focus and longer term financial interest and will generally be more interested in participating in major, complex urban regeneration projects. However, the first two types will practically always have to sell to investor companies (other than owner-occupiers and private landlords, of course) and should, in theory, focus on long-term sustainability and profits as well. However, it is felt in the public sector that these types of developers are only in for ‘quick wins’.

As a consequence, there are also several types of investors: those that are also involved in development (with their development branches, such as ING, Rabobank) and those that are not (now such as ABN AMRO who has recently sold its developing branch Bouwfonds).

4.3 The institutional and regulatory framework

Planning framework at regional and local level
One of the foremost eligibility criteria for projects under JESSICA is the need to be covered in an Integrated Urban Development Plan. The planning system in the Netherlands has a wide tradition in producing these kinds of plans and they are omnipresent in all cities in the Netherlands as well as other municipalities. The most detailed form of planning is the zoning plan, which constitutes the regulatory framework for land use. Usually, at a regional, urban or even area level, the Masterplan is the most persistent. In a Masterplan, an overview of which functions to develop (including m2 etc), a development strategy, detailed subplans per area, etc are incorporated.

All these types of plans could certainly qualify as an Integrated Urban Development Plan.

National institutional framework
Since 1994, the Netherlands have adopted a specific national urban policy, called the Grotestedenbeleid (GSB). This started with four cities, but now covers 31 cities. It is now in its third phase and extends to 2010 (around 3.6 billion euros national government investment between 2005-2010, price levels 2004). Discussions are on their way about the next period to 2015-2020 (for which financial needs/claims have been published ranging from 1.4 to 6 billion euros needed per year, price levels 2006). The GSB focuses on integrated urban development, including social policy, economic and employment policy, housing and physical regeneration, safety etc.. The Ministry of the Interior is the coordinator, together with the Ministry of Housing and Spatial Planning, the Ministry of Economic Affairs and the Ministries of Social policy and Employment, Education and Culture, Health, Social care and Sports and Justice.
The national urban policy entails government subsidies for local government, housing corporations and all other social and cultural stakeholders for investments in all kinds of necessary activities and plans for revitalizing the cities and increasing their livelihood and competitiveness.

Within the cities under the national urban policy, 56 special districts have been appointed where additional focus is on physical regeneration and housing. Other special policy instruments include special ‘task forces’ for tackling problems in urban regeneration areas or projects, knowledge dissemination institutes and programmes, etc..

In the Netherlands, the EU plays a relatively important part in fostering city investment. In comparison to other ‘old’ Member States the Netherlands spends a relatively big size of its Objective 2 money on urban development (200 million euros between 2000-2006, price levels 2000). One overall, integrated Operational Programme has been drafted, aimed at 11 specific districts spread over 9 cities (both Amsterdam and Rotterdam include two Objective 2 areas). The Community Initiative URBAN2 (around 50 million euros between 2000-2006, price levels 2000) operates in 3 cities (Amsterdam, Rotterdam and Heerlen). Both programmes focus on investments in SME development, industrial sites, city-marketing, whereas URBAN2 also focuses on strengthening social cohesion, providing socio-cultural facilities at neighbourhood level, etc., This is complementary to ESF-activities. ESF is a nation-wide programme, but is used quite a lot in the major cities, for educational programmes, skills development etc..

For the new programming period (2014-2020), the Netherlands have drafted a draft National Strategic Reference Framework (NSRF). The Structural Funds available for the Netherlands in this period between 2007-2013 amount up to about an indicative amount of around 1,7 billion euros (price levels 2006, source INFOREGIO). This is divided between the Employment & Competitiveness Objective (1,5 billion, of which 50% goes to four regional programmes (Competitiveness) and 50% for the national ESF programme) and the Territorial Cooperation Objective (212 million).

The Netherlands have chosen to appoint four management authorities, divided over the regions of the country: West (including the four major Randstad cities), East (including Enschede, Arnhem, Nijmegen), North (including Groningen and Leeuwarden) and South (including Eindhoven, Tilburg, Breda, Maastricht). They each have drafted their own Operational Programmes (OP’s), which incorporate the Competitiveness and Cooperation Objectives. They have all explicitly incorporated an urban dimension in their Operational Programmes, this urban dimension being relatively the most dominant in the West programme, which sees a total ERDF investment of around 311 million euros. The OP for South amounts up to a total ERDF investment of 186 million euros, for the North to 169 million euros and for the East to 164 million euros.
5 Review of relevant ERDF Operational Programmes

5.1 Introduction

This chapter focuses on the four Regional Competitiveness and Employment (RCE) objective ERDF programmes in the Netherlands:
- OP Oost (GO Gebundelde Innovatiekracht)
- OP West (Kansen voor West)
- OP Noord
- OP Zuid-Nederland

These OP’s are all structured into three priority axes as follows:
1. Innovation, entrepreneurship and knowledge economy;
2. Attractive regions;
3. Attractive cities.

The first two priority axes must be included in all programmes and the content and financial focus lies on the first axis. The inclusion of an urban priority is considered preferable in the National Strategic Reference Framework (NSRF), but is not mandatory and depends on the regional choices made. Reason for the inclusion of such a targeted priority is the recognition of a range of development issues that are specific to cities. The “Urban dimension” priority axes in the four Dutch ERDF OP’s cover the 31 cities targeted by the Dutch national “Large Cities Policy” (Grotestedenbeleid – GSB). Under these ERDF priority axes, the 31 eligible cities may apply a neighbourhood-based approach or an approach covering the entire city. In either case, ERDF-supported actions must be well coordinated with the implementation strategies for the GSB. For JESSICA it is relevant to know that GSB cities were required to draw up multi-annual development integrated urban development plans. Besides, cities are developing additional ‘integrated’ plans, according to own needs. This also holds for non-GSB cities.

5.2 Identification of relevant objectives and priorities from the OP’s

Within this task we have explored opportunities for the use of JESSICA in all four OP’s. The urban priority (priority 3) Attractive Cities seems most appropriate and relevant in this light but as projects from the other two priorities can be located in urban areas as well and financial focus is on priority 1, attention will be paid to these too.

We list the relevant Objectives, Priorities and Activities/Measures/Project types (depending on the OP) per OP. In the overviews a division is made into projects ‘most relevant for JESSICA’ and ‘potentially relevant for JESSICA’. This division is based on the geographical focus on urban, inner-city, areas and other eligibility criteria like the ability to generate income.

**OP Noord**
The main objective of this OP is formulated as: Transition from the regional economy towards a knowledge economy that combines development and implementation of innovation and technology with an improvement of the spatial qualities in cities and countryside.
This main objective has been made operational in a set of lower level objectives. Most relevant for JESSICA are:

- Stimulating and facilitating entrepreneurship related to knowledge and innovation
- Improving accessibility of urban centres
- Improving the attractiveness of urban areas
- Development of attractive business and office parks.

Within the three priorities a subdivision into actions is made and examples are provided of suitable project types. The table below specifies those that could be of relevance for JESSICA. Projects within priority 3 are foreseen in the cities for sure while priority 2 mainly covers the economically most important zones of the region (including the main cities but from a regional perspective). Priority 1 applies to the entire region falling within this OP.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Action</th>
<th>Most relevant type of projects</th>
<th>Other type of projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Innovation, entrepreneurship and knowledge economy</td>
<td>1A. Enforcement of regional position in knowledge and innovation</td>
<td>- R&amp;D faculties on university campus in the cities</td>
<td>- Expansion of knowledge centres</td>
</tr>
<tr>
<td>2. Attractive regions</td>
<td>1B. Enforcing knowledge level of SME</td>
<td>- ICT accessibility</td>
<td>- Development of research faculties at knowledge institutes</td>
</tr>
<tr>
<td></td>
<td>2B. Accessibility and mobility</td>
<td>- Traveler information systems</td>
<td>- Stimulating knowledge transfer via technological workplaces</td>
</tr>
<tr>
<td></td>
<td>2C. Upgrade business parks</td>
<td>- Innovative form of public transport</td>
<td>- Mobility management</td>
</tr>
<tr>
<td>3. Attractive cities</td>
<td>3A. Upgrade urban amenities</td>
<td>- Sustainable mobility</td>
<td>- Direct access to the important locations</td>
</tr>
<tr>
<td></td>
<td>3B. Locations for knowledge oriented business</td>
<td>- Mobility management</td>
<td>- Public space in business parks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Quality improvement to public space surrounding business locations</td>
<td>- Safety of business parks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Parkmanagement</td>
<td></td>
</tr>
</tbody>
</table>

Table 3: Priorities OP Noord
**OP Zuid-Nederland**

The main objective of this OP is formulated as: *Zuid-Nederland is known on European level in the field of innovation and economic dynamics by stimulating a knowledge intensive and sustainable growth. The region aspires to become a front runner within the Netherlands. An attractive area in terms of housing, working and living conditions is conditional for the ambitions regarding this position.*

This main objective has been made operational in a set of lower level objectives. Most relevant for JESSICA are:

Priority 1 Innovation, entrepreneurship and knowledge economy: Stimulating entrepreneurship.
Priority 2 Attractive regions: Improvement to the quality of business locations, important for regional innovation strategies, and improvements to the surrounding as long as this contributes to the regional business climate.
Priority 3 Attractive cities: Stimulating urban economy, provide quality impulse to existing business parks, stimulating livability, transformation of inner-city neighborhoods, provide an impulse to the attractiveness of public space, including green areas and safety.

Within the three priorities a subdivision into actions is made and examples are given of suitable project types. The table below specifies those that could be of relevance for JESSICA. Priority 3 projects are located in the GSB cities of the region. Certain type of projects within priority 2 may not be located in the GSB cities to avoid overlap with priority 3. However, 90% of the budget within priority 2 will be spent in urban networks or the designated economic zones and this priority could therefore be relevant for JESSICA too.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Action</th>
<th>Most relevant type of projects</th>
<th>Other type of projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Innovation, entrepreneurship and knowledge economy</td>
<td>Support for start-ups and stimulation of entrepreneurship</td>
<td>Transform real estate with cultural legacy into office or public service locations</td>
<td>Provide incubators for technological start-ups</td>
</tr>
<tr>
<td>2. Attractive regions</td>
<td>Transformation of special real estate property</td>
<td>Neighborhood level initiatives</td>
<td></td>
</tr>
<tr>
<td>3. Attractive cities</td>
<td>Encourage combination of residing and working</td>
<td>Expansion of cultural facilities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Creation of high quality urban environments</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Investment in inner-city</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Attractiveness and safety of public space</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Urban transport</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**OP Oost GO Gebundelde Innovatiekracht**

The main objective of this OP is formulated as: *Development of the eastern part of The Netherlands into a leading European innovative region.*
The specific measures relevant for JESSICA under the three priorities are:

Priority 1: Innovation, entrepreneurship and knowledge economy:
- Measure 1.1: Enforce knowledge clusters food, health and technology
- Measure 1.2: Enforce innovative strength and competitive position of business community

Priority 2: Enforce innovation climate in urban networks
- Measure 2.1: Improving accessibility and mobility
- Measure 2.2: Impulse to quality of work and living climate

Priority 3: Attractive cities (urban regeneration)
- Measure 3.1: Integrated neighborhood approach

Geographically, priority 1 covers the entire region, priority 2 the urban networks of the region (with a focus on projects with regional impacts) and priority 3 covers 7 GSB cities and 2 other non-GSB cities.

This leads to the following selection for JESSICA:

<table>
<thead>
<tr>
<th>Priority</th>
<th>Measure</th>
<th>Most relevant type of projects</th>
<th>Other type of projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Innovation, entrepreneurship and knowledge economy</td>
<td>1.1</td>
<td>Physical investments in knowledge infrastructure like laboratories and incubators on university campus or business &amp; science parks.</td>
<td>High quality business centers</td>
</tr>
<tr>
<td></td>
<td>1.2</td>
<td></td>
<td>Physical support network economy</td>
</tr>
<tr>
<td></td>
<td>1.2</td>
<td></td>
<td>Facility sharing and support for start-ups</td>
</tr>
<tr>
<td></td>
<td>1.2</td>
<td></td>
<td>Traffic management</td>
</tr>
<tr>
<td>2. Enforce innovation climate in urban networks</td>
<td>2.1</td>
<td>Opening up important business locations from the main transport axes, including inner cities</td>
<td>Improvements to accessibility of inner-cities and business locations by redevelopment of station and city centre locations.</td>
</tr>
<tr>
<td></td>
<td>2.1</td>
<td></td>
<td>Innovative transportation (public transport, bicycle)</td>
</tr>
<tr>
<td></td>
<td>2.1</td>
<td></td>
<td>Restructuring business parks in a more environmental friendly way</td>
</tr>
<tr>
<td></td>
<td>2.2</td>
<td></td>
<td>Projects aimed at energy efficiency and environment, as long as these are somehow connected to (facilitating) economic development</td>
</tr>
<tr>
<td></td>
<td>2.2</td>
<td></td>
<td>Projects aiming at improved touristic-recreational infrastructure</td>
</tr>
<tr>
<td>3. Attractive cities (urban regeneration)</td>
<td>3.1 (entrepreneurship)</td>
<td>Redevelopment and restructuring of business locations in neighborhoods. Accessible business centers for start-ups. Incubators and space for creative</td>
<td></td>
</tr>
</tbody>
</table>
industries.

3.1 (networks) Realization of integral professional training centers and other forms of non-regular (physical) educational infrastructure

3.1 (accessibility) Improve the spatial quality of business locations and their direct surrounding with physical infrastructural measures.

3.1 (safety and livability) Security of business locations and advice on safety measures for entrepreneurs.

Table 5: Priorities OP Oost

**OP Kansen voor West**

OP Kansen voor West consists of the same three priorities as the other OP's, with the distinction that the urban priority (priority 3) is sub delegated to the G4 cities (the four largest Dutch cities), which all installed their own Steering Group to commit the urban projects.

For JESSICA, relevant priorities and objectives are:

**Priority 1:**
- Objective 1.1: Reinforcing rapidly growing clusters by development, exchange and application of knowledge
- Objective 1.3: Stimulating technological, environmental innovations

**Priority 3:**
- Objective 3.1: Improving the business climate
- Objective 3.2: Improving living climate

There are no activities included from priority 2, Attractive regions, as this focuses on the countryside and zones around the cities rather than on urban developments.

The table below presents the relevant activities for JESSICA.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Objective</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Innovation, entrepreneurship and knowledge economy</td>
<td>1.1</td>
<td>West Netherlands is stimulating the creation of hot spots, breeding grounds and science parks so that supply and demand of knowledge are physically close together. (Techno) starters can make use of working areas, facilities and intermediary circuits. West Netherlands will also provide limited funds per project if it appears that (indirect) physical investments are necessary to achieve a maximum result. Projects focussed on increasing the number of broadband services and developing new concepts in the fields of ICT and broadband will be stimulated. In addition to National efforts attention must be paid to the development of clean, energy-saving and innovative methods to support cargo transactions and the transportation of goods and people, especially in the urban areas where the quality of the air is under severe pressure. West Netherlands is investing in the redevelopment of the port and railway areas, factory grounds and the economic zones around the development of</td>
</tr>
</tbody>
</table>
3.1 West Netherlands will make use of structural funds to improve the accessibility of the inner city business and office locations. This is important if employment is to be retained within the cities. Aspects here include good accessibility, traffic regulations, adequate parking facilities and parking regulations. Innovative developments in this field deserve particular support.

3.1 Investments focused on the redevelopment of old (business) premises will be stimulated. This fits in with the broad policies concerning the disadvantaged, underprivileged areas: empty houses, for example above shops, disrepair and decay will be tackled. Cheap and modern facilities, for example living-working units for starter companies, will be made available. Small-scale business accommodation will be created in local neighbourhoods for profession groups who are unable to work from home.

3.1 Revitalising neighbourhood community centres will also receive attention. Entrepreneurs and owners will be stimulated to devise revitalising plans for these centres. This will create employment (for starter companies) in attractive business zones in disadvantaged neighbourhoods or in central locations. The support will provide impulses for investment in such areas. An inventory will be made of the opportunities for business improvement districts (BID). The focus will be on the potential of the combination of the neighbourhood economy and recreational economy.

3.2 The quality of the physical public areas strongly defines the attractiveness of the areas and neighbourhoods. West Netherlands would like to invest in this by broadening and improving the quality of public areas, especially in the older neighbourhoods.

3.2 West Netherlands is investing in the application of innovative concepts for the improvement of the environment in our cities. In many cities in West Netherlands the air quality is bad and does not satisfy the European regulations for fine dust particles and emissions (NOx). Initiatives in the areas of environmentally friendly and energy saving public transport are being stimulated.

3.2 The availability and accessibility of green in the cities is inadequate. The liveability of a region benefits from a balanced relation between different functions such as urbanization and green areas. By using the ERDF-means West Netherlands hopes to tackle this imbalance in the cities. The aim is to create more space for greenery and to pay more attention to the quality of the green areas in the city.

3.2 Socio-cultural facilities are not cost-effective in an economic sense, but are of great importance for the social cohesion in the districts. Activities by educational establishments, health institutions, sport clubs and self-organizations require adequate space, such as play areas, community centres, club houses and sport complexes. A basic level is generally already available, but social developments demand the expansion of existing facilities and the creation of new opportunities. Support from the ERDF will be used for this.

Table 6: Priorities OP West
5.3 Assessment of non-assigned OP resources

Financial overviews
As mentioned, financial resources for the OP’s are concentrated in Priority 1. The tables below present the original budgets and also provide an estimate of the remaining ERDF funding that is not officially committed mid 2010. In some cases the MA’s indicated that in practice, the budget still available is rather limited due to projects in the project pipeline. OP resources are not earmarked for specific projects, as the Dutch ERDF OP’s did not identify (major) projects in advance.

<table>
<thead>
<tr>
<th>Priority</th>
<th>ERDF</th>
<th>Total Co-financing</th>
<th>Total OP</th>
<th>Remaining</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Innovation, entrepreneurship and knowledge economy</td>
<td>94,864</td>
<td>94,864</td>
<td>189,728</td>
<td>0</td>
</tr>
<tr>
<td>2 Attractive regions</td>
<td>33,880</td>
<td>50,820</td>
<td>84,7</td>
<td>0</td>
</tr>
<tr>
<td>3 Attractive cities</td>
<td>33,880</td>
<td>50,820</td>
<td>84,7</td>
<td>0</td>
</tr>
</tbody>
</table>

Table 7: Financial overview OP North (*1000 Euro)

<table>
<thead>
<tr>
<th>Priority</th>
<th>ERDF</th>
<th>Total Co-financing</th>
<th>Total OP</th>
<th>Remaining</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Innovation, entrepreneurship and knowledge economy</td>
<td>92,950</td>
<td>139,364</td>
<td>232,314</td>
<td>+/- 0</td>
</tr>
<tr>
<td>2 Attractive regions</td>
<td>45,312</td>
<td>70,872</td>
<td>116,184</td>
<td>+/- 0</td>
</tr>
<tr>
<td>3 Attractive cities</td>
<td>40,202</td>
<td>58,851</td>
<td>99,053</td>
<td>+/- 20,000 from ERDF</td>
</tr>
</tbody>
</table>

Table 8: Financial overview OP South (*1000 Euro)

For Priority 3 of OP South, some funding is still available. However, it is foreseen that these resources flow to those projects that have already submitted a draft application. The actual remaining budget is therefore minimal, which then holds for all three priorities.

<table>
<thead>
<tr>
<th>Priority</th>
<th>ERDF</th>
<th>Total Co-financing</th>
<th>Total OP</th>
<th>Remaining</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Innovation, entrepreneurship and knowledge economy</td>
<td>95,276</td>
<td>116,449</td>
<td>211,725</td>
<td>48,000</td>
</tr>
<tr>
<td>2 Attractive regions</td>
<td>45,128</td>
<td>55,156</td>
<td>100,284</td>
<td>25,000</td>
</tr>
<tr>
<td>3 Attractive cities</td>
<td>17,132</td>
<td>20,940</td>
<td>38,072</td>
<td>14,000</td>
</tr>
</tbody>
</table>

Table 9: Financial overview OP East (*1000 Euro)

For priorities 2 and 3 of OP East, the remaining budget is fully reserved for projects in the project pipeline. Projects within priority 1 can still apply for funding but are geographically restricted.

<table>
<thead>
<tr>
<th>Priority</th>
<th>ERDF</th>
<th>Total Co-financing</th>
<th>Total OP</th>
<th>Remaining (total OP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Innovation, entrepreneurship and knowledge economy</td>
<td>147,735</td>
<td>221,602</td>
<td>369,337</td>
<td>167,345</td>
</tr>
<tr>
<td>2 Attractive regions</td>
<td>53,680</td>
<td>80,520</td>
<td>134,200</td>
<td>Not relevant</td>
</tr>
<tr>
<td>3 Attractive cities</td>
<td>96,761</td>
<td>145,142</td>
<td>241,903</td>
<td>171,300</td>
</tr>
</tbody>
</table>

Table 10: Financial overview OP West (*1000 Euro)

For priorities 1 and 3 of OP West there is still some budget available. Several main projects have been halted or postponed or are still under consideration.
Indication of committed projects relevant for JESSICA

We asked the MA’s to provide an indicative list of committed projects that might have been suitable for JESSICA in order to gain insight in the potential use of this instrument in The Netherlands.

OP Noord:
- Ondernemerstrefpunt (Total investment costs € 1.320.000/ ERDF € 520.000)
- Aquazoo (Total cost € 5.000.000/ ERDF € 1.750.000)
- Kenniscentrum sociale innovatie (Total cost € 1.982.000/ ERDF 278.440)
- Incas3 (Total cost € 20.273.736/ ERDF € 2.036295)
- European Tourism Institute (Total cost € 3.135.940/ ERDF € 634.139)
- Sensor City (Total cost € 18.726.642/ ERDF € 5.640.844)
- Grote markt Oostwand (Total cost € 27.230.000/ ERDF € 8.873.113)
- Revitalisering Winschoterdiep (Total cost € 10.793.000/ERDF € 4.500.000)
- Revitalisering Groninger Museum (Total cost € 5.291.777/ ERDF € 1.677.041)
- Drents Archief 3.0 (Total cost € 6.717.830/ ERDF € 2.542.571)
- Drents Museum (Total cost € 6.169.004/ ERDF € 2.466.773)
- ERIBA (Total cost € 24.719.000/ ERDF € 7.000.000)
- Realisatie TT Institute Assen (Total cost € 1.972.844/ ERDF € 790000)
- Watercampus Leeuwarden (Total cost € 40000000/ ERDF € 4.000.000)
- HIT (Total cost € 2.141.953/ ERDF € 107.079)

OP Zuid-Nederland:
- Catalyst (Total cost € 10.396.000/ ERDF € 2.000.000)
- Gruyterfabriek (Total cost € 10.661.300/ ERDF € 4.193.963)
- Veemarktkwartier (Total cost € 18.614.452/ ERDF € 5.490.948)
- Transformatie Brabanthallen (Total cost € 13.082.746/ ERDF € 3.532.341)
- Muziekgebouw van de toekomst (Total cost € 10.500.000/ ERDF € 2.835.000)
- Bedrijventerrein De Karosseer (Total cost € 10.700.924/ ERDF € 3.995.000)
- Inrichting openbare ruimte stationsomgeving Helmond (Total cost € 3.443.500/ ERDF € 1.377.400)
- Maasboulevard Venlo (Total cost € 10.654.276/ ERDF € 3.847.331)

OP Oost:
- Voorzieningenhart Willemskwartier (Total cost € 2.694.231/ ERDF € 200.000)
- Binnenhavens Enschede (Total cost € 22 mln/ ERDF € 2 mln)

OP Kansen voor West:
- Rotterdam: Revitalisering nieuwe binnenweg (Total cost € 6.900.000 ERDF)
- Rotterdam: Hofbogen (Total cost € 1.888.290 ERDF)
- Amsterdam: Verbeteren economische functies DAMRAK 1 en 2 (Total cost € 3.919.954 and € 2.188.521 ERDF)
- Zuid-Holland: kassenwarmte (Total cost € 1.603.637 ERDF)
- In case a fund for the whole urban renewal of Amsterdam’s Red Light District would have been in place, the projects Ons Lieve Heer op Solder (ERDF € 3.368.643,-) and ARM de Prael (ERDF € 731.335) would be relevant too.

Projects now under final consideration for approval:
- Den Haag: Aardwarmte
- Amsterdam: Herontwikkeling Storkterrein
6 Case studies

6.1 Introduction

This chapter discusses the case studies involved. Per case study, we will evaluate:

- Background and rationale of project, including public interest aspects;
- JESSICA/ERDF eligibility criteria;
- Financial analysis of anticipated commercial performance (description of business plan and potential revenue generating capacity);
- Project maturity and timing of implementation;
- Availability of other leverage financing, potential in-kind contributions (e.g. land and buildings) and/or technical resources from both the public and private sectors, which could complement JESSICA on (fund or) project level;
- Type of JESSICA intervention and possible financial delivery mechanism/structure for JESSICA funds to the project, and
- Other key information relevant for JESSICA.

As a conclusion, we will demonstrate, if possible, the financial and non-financial advantages of JESSICA financing over grant support or other forms of financing from the market.

6.2 The case study selection

Selection criteria
Based on the JESSICA scheme the following selection criteria have been used for the selection of possible case studies:

- presence of an integrated urban development plan;
- state of play: is sufficient information available/maturity of the project (including financial information);
- revenue generating potential (compliance with art. 55 of ERDF-regulations);
- compliance with JESSICA project eligibility criteria.

In addition it has been discussed that geographical spread within the Netherlands would be favourable.

- Presence of an integrated urban development plan
The JESSICA framework states that projects to be financed by JESSICA instruments should be part of an integrated urban development plan. Given the ambition of JESSICA to enhance an evolution towards public-private co production, this is an important issue. The integrated urban development plan ideally should be defined in a status of a master plan that sets the main public ambitions for the area development. Ideally, given the rigidity of formal planning documents and of the procedures to settle them, these should be set up after engagements with private parties, in order to make optimisations, revisions and detailing possible. This allows for already some participation of the private sector, which is favourable for the assessment as a case study for JESSICA –given its goals to improve public-private joint investments in urban areas.

- State of play; is sufficient information available?
JESSICA will be in certain ways new to the urban development practice in the Netherlands. On the other hand, lots of projects are currently in execution or being prepared for execution. The
importance of clear public goals and agreements on initial public-public collaboration has already been stressed at various occasions. Most important however is that public goals are clearly defined and eventually put in a policy covenant with definition of tasks, a calendar and financial engagements. Following this, some relevant and specified financial information should ideally be available.

- **Revenue generating potential**
  Projects should have revenue potential (compliant with article 55 projects). This clearly means that any revenue should be generated by the investment done. This could stem from land revenues (eg. after sanitation/rehabilitation), sales revenues (of real estate), etc.. This does not necessarily mean that the entire business case of the project or exit-cash flow of the totalled investment should be positive. However, there needs to be a minimum pay-back capacity for equity exit, loan recovery or either payment of interest/ dividend.

- **Compliance with project eligibility criteria JESSICA**
  Projects that could be supported by Urban Development Funds (depending on underlying ERDF OPs) can focus on:
  - basic urban infrastructure, including street furniture and pedestrianisation;
  - recovery, transformation and re-use of land and buildings;
  - commercial and retail development;
  - improvement to urban utility networks;
  - urban transport and traffic management schemes;
  - development of social enterprises; and
  - upgrading of social and affordable housing (only in New Member States).

**Selected case studies**

Based on these case study selection criteria -with the additional criterion for geographical representation within the Netherlands- the following case studies have been suggested by the Steering Committee and subsequently agreed upon by both the contractor and Steering Committee:

- Stadshavens, Rotterdam
- Binnenhavens, Enschede
- Belvedere, Maastricht

These will now be evaluated.

**6.3 Stadshavens Rotterdam**

**Background information**

Stadshavens Rotterdam (1600 hectares) wants to develop into a quality port and an excellent location, not only for port and transport related industry, but also for innovative businesses and knowledge institutes. Rotterdam is also creating an image of itself as a trendsetter in the fields of sustainable energy and climate adaptation, with the aim of attracting professionals and pioneers keen to try out these new trends. Stadshavens can provide them with everything they need for

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2 Originally, Spoorzone Groningen was suggested as a case study as well (representing the Northern part of the Netherlands). But only after a relatively long period the contractor had to draw the conclusion that the project did not qualify. Main reasons where the fact that there was probably no revenue generating potential (mainly investments in public infrastructure) and the state of play was not matured enough to be able to use sufficiently detailed financial project information.
setting up their businesses, along with exceptional residential developments, cultural amenities and good educational facilities.

Connecting city and port
The port of Rotterdam is one of the transhipment hubs in the world, with 400 million tonnes transferred each year. The city and its 600,000 inhabitants have traditionally been dependent on the port. Both the port and the city need a boost, especially if they want to maintain their strong competitive position.

The reorganisation and renovation of Stadshavens will give it that much-needed boost. The three main objectives will be to link the city and the port, develop in a sustainable manner and create international appeal. Innovation will provide the means, concentrating on energy transition and water management. This fits in perfectly with the image of Rotterdam as Europe’s largest energy port and the Netherlands as the ultimate water land.

Stadshavens: an impressive environment
Stadshavens, with its long quays, imposing docklands buildings, magnificent panoramas and abundance of water, is an impressive environment. The transition will create space for both port and urban activities, whilst ensuring that each harbour holds onto its own identity. Starting from the Maasvlakte in the west moving east towards the city, the port activities, knowledge-intensive industry, services and education will gradually give way to living and working environments for pioneers, ending with luxury housing in the centre of Rotterdam. Water-borne transport will be the preferred method of travel to and from Stadshavens, and in the area itself as well.

The four districts which make up the Rotterdam Stadshavens area have their own distinguishing characteristics:

<table>
<thead>
<tr>
<th>District</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eemhaven-Waalhaven</td>
<td>The short sea hub of Europe, innovative distribution parks, maritime head offices, technology companies</td>
</tr>
<tr>
<td>RDM site</td>
<td>Research, Design and Manufacturing, innovative manufacturing industry in combination with (higher) education</td>
</tr>
<tr>
<td>Merwehaven-Vierhavens</td>
<td>Rotterdam Climate Campus, testing ground for sustainable energy and water management, floating city, creative pioneers</td>
</tr>
<tr>
<td>Rijnhaven-Maashaven</td>
<td>Show city with water podium, floating housing developments, use of tidal energy</td>
</tr>
</tbody>
</table>

Programme
In the medium term (2025), the Stadshavens will provide:
- 5,000 houses/apartments on or beside the water
- 1,000 educational places for students
- 13,000 new jobs, for both skilled and unskilled workers
- Twice the volume of transhipment of containers, i.e. 2.4 million TEU

Gradual implementation
The transition of the Stadshavens will happen gradually, with short, medium and long term projects. Most of the reorganisation will take place in the medium and long term, as the existing port industry moves out to Maasvlakte II. The long term target is 2040. The development of Stadshavens consists of a lot of different projects.

After discussions with the area management of Stadshavens we have looked at 3 possible case study projects.
- Katoeneveem
After a subsequent meeting with the Rotterdam Port Authority we have come to the conclusion that we should not proceed with the third case study project (Dokkantoor) because of the fact that this project will be realised with sufficiently available public funds and therefore would not really add value to the selection of case study projects.

6.3.2 Case Katoenveem

Background and rationale of the project
Katoenveem is an old warehouse, located between Lekhaven and Keilehaven. The Keilehaven was realised between 1912 and 1914. Around this port many warehouses and factories were erected. Katoenveem was one of these warehouses and is to this date one of the oldest buildings around.

The warehouse Katoenveem is located at an unique location in Rotterdam. Today, the various compartments are in use as storage for different companies. The warehouse is in poor shape and needs to be restored. However, Katoenveem is a monument, which usually means expensive repair work. After restoration the warehouse could have a different function. Because of the extensive restoration of the building and the environmental zones in the harbour district it is very difficult to redevelop such a project. It is almost impossible for a private developer to do all the necessary restoration work and still be profitable. However, when Stadshavens is completed (thirty years from now), Katoenveem will find itself in another environment, in the hart of Rotterdam, still uniquely located. This would mean a total different business case and profitability is most certain.

Katoenveem is a national monument, and therefore renovations needs to be done within state regulations. This makes government involvement necessary and can make it possible to meet the eligibility criteria for Jessica (eg. the presence of market failure).

JESSICA/ERDF eligibility criteria;
The project “Stadshavens” is linked with OP “Kansen voor West”. The main objective of this OP can be formulated as: To invest in themes such as innovation, research and development, knowledge, the connection of education to the labour market, human capital and sustainable energy.

The case of Katoenveem is covered by priority 3: Attractive cities. The objective of priority 3 is about improving the investment and enterprise climate and living conditions in general.

Project timeline;
There is no defined timeline for this project. Already several developers have looked at the renovation possibilities, but no one has found it to be a profitable investment so far. This is mainly due to the high initial investment costs to the exterior of the building.

Project status
- A small study was carried out, so there are a some numbers available that give a rough estimate of the renovation costs.
- There is not yet a feasible business plan. Multiple developers have already looked at the possible renovation of Katoenveem, but concluded it so far as ‘not feasible’.
- There is no private developer involved (so far).
- The desired developments could partly fit in the current zoning-plan (municipal landuse-plan).

Contributors
The only contributor so far is the city of Rotterdam (Stadshavens). It is in their interest that Katoenveem will be developed, preferably soon. The restoration of such a building could mean a kick-start for other renovations or redevelopments.

**Project economics**

In this case we are dealing with a monument that could be a unique building which in the future could contain different functions, like offices, catering businesses, apartments etc. Because of the restoration costs (estimated for the exterior alone around 5 million euro) the warehouse will not be developed. Private developers cannot afford such a project and still be profitable. A second reason or problem are the environmental zones. Because of the surrounding factories it is almost impossible to get a permit for the development of residential buildings. Over time these zones will disappear (because the factories will be demolished) and residential functions will be possible. Nevertheless, redevelopment of Katoenveem is possible. Rules for offices, and other businesses are not as strict, and redevelopment is an option. In time residential redevelopment could be reconsidered an option.

**Type of JESSICA intervention**

The main problem remains the investment costs of the redevelopment. It is clear that the restoration of Katoenveem could give a kick-start to other redevelopments in the area. Could JESSICA be of any use?

<table>
<thead>
<tr>
<th>problems</th>
<th>loan</th>
<th>subordinate loan</th>
<th>equity</th>
<th>guarantee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial investment is too high. No private developer will invest in the project today.</td>
<td>x</td>
<td>x</td>
<td>1</td>
<td>x</td>
</tr>
<tr>
<td>Shortage of equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

JESSICA could give this project a kick start by participating in the project. It is clear that Katoenveem is a revenue generating project at the longer stage, but probably not the first decade. However, in the long run this will be the case. Hence, with equity a PPP could be set up to restore the former warehouse. To be of interest, dividends to be paid should be probably as low as zero. A loan or subordinated loan is less relevant because it is a long term project. The interest that will have to be paid in the upcoming decade would be seen as unnecessary loss. A guarantee would for the same reason (long lasting period) not be seen as beneficial.

After renovation and reuse (including possible temporary use, just like the Pakhuis at the Kop van Zuid) the building should be able to boast more than the initial 5 million Euro worth of revenues and equity can be recovered and even reinvested in the further development of the project or either the wider area.

**Possible financial delivery mechanism/structure**

It will not be feasible to establish any UDF for the project itself (although this is possible within the pilot stage of JESSICA) so this project should be able to profit from a UDF at any higher geographical level. The UDF will then possibly act as a business partner.

If no revenues are generated, or not enough, the project should be enlarged so the whole project or investment of the UDF can be repaid.

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3 Please note that 4 percent of the budget of ERDF can be use for housing projects.
6.3.3 Case The Green Mile

**Background and rationale of the project**

The relatively young roots of Aqualiner company (the company was founded in the late 90s) are related to the development of fast passenger transport by water as a new form of (public) passenger transport in sensitive (congested) areas. In Rotterdam Aqualiner was commissioned by the Port of Rotterdam in May 2008 to operate the new fast ferry Rotterdam - Heijplaat RDM.

The extent to which planned and initiated developments in the Rotterdam City Region are successful and sustainable, depends to a significant extent on good accessibility and mobility. Today the accessibility is under pressure and it will only get worse by the increased mobility in the near future and in short future it will worsen by work on the trunk road and secondary road pattern.

In addition, the Nieuwe Maas River / Waterway is still perceived as a barrier, a natural obstacle from north to south, or from the city centre to the port side.

The rapid Aqualiner ferry provides a connection between Willemskade, the Jobs Haven and the RDM site. The initiators have shown that if the water is cleverly used, the accessibility will be maintained (improved) and current and future area development can be stimulated (RDM Campus).

**JESSICA/ERDF eligibility criteria**

The project “Stadshavens” is linked with OP “Kansen voor West”. The main objective of this OP can be formulated as: To invest in themes such as innovation, research and development, knowledge, the connection of education to the labour market, human capital and sustainable energy.

The case of The Green Mile is covered by priority 1: knowledge, innovation and entrepreneurship. The objective of priority 1 is about stimulating innovative businesses. Also priority 2 (objective 2.2) applies to the Green Mile.

**Project timeline**
The project could start in February / March 2011 (investment date/financing date). But this date is dependent on several necessary steps.

**Project status**
- The project is in the stage of realising a feasibility analysis, after which it is ready for implementation.
- There is only a limited initial business plan available at the moment.
- Contractual agreements are only being investigated on a limited scale. Financing arrangements are being investigated with different institutions.
- The desired developments fit in the current zoning-plan (municipal landuse-plan) and are part of an integrated urban development plan.

**Contributors**
The project promoter is the Community of Rotterdam. The project can only be feasible when there will be co-financers/promoters, including the company itself that will be using the Aqualiner.

**Project economics**
The Aqualiner will contribute to a better accessibility and sustainable mobility in the region. It will therefore contribute indirectly to future area development. This new way of public transportation is not financially profitable (as holds for practically any kind of public transportation). However there is a social profitability when more people use public transportation in stead of their own cars.

The financial paragraph of the Aqualiner business plan shows that there is a financial gap between profit and costs. Aqualiner invests in a ship contract period of 3 years. To be profitable, public parties will have to contribute around 40% of the operating costs, Aqualiner itself contributes 10%. The other 50% of the operating costs comes from the sale of tickets (i.e. users). With companies, additional arrangements can be made to use the boat for private activities (evening / weekend). These can include meetings. The necessary construction of shore facilities is not included in the budget.

The municipality of Rotterdam is a big supporter of public transportation and is willing to contribute in Aqualiner. However the contribution of 40% does not match. Rotterdam is willing to contribute through grants annually, but not up to 40%.

Aqualiner expects to sell up to € 300,000 on tickets each year. They expect to carry around 500 passengers each day. The business seems exploitable, because 500 passengers each day is not only a defensive estimate, but the price of a return ticket only has to be € 1.75.

Considering the potential business case and possibilities to optimize and the willingness of businesses to contribute in public transportation, it seems likely that the prices can go up and that the number of passengers could also be higher (eg. in combination with memberships paid for by the employers). However, there is also a risk that the necessary number of passengers will not be met. It is likely that Aqualiner will need some time to reach the full potential.

Another important aspect is that a quay needs to be built. The costs for such a construction are excluded from the business plan. Of course a quay is necessary to make this kind of public transportation possible. Perhaps JESSICA can play a part in this aspect as well.
**Type of JESSICA intervention**

<table>
<thead>
<tr>
<th>problems</th>
<th>loan</th>
<th>subordinate loan</th>
<th>equity</th>
<th>guarantee</th>
</tr>
</thead>
<tbody>
<tr>
<td>The necessary public support investment is considered too high.</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>x</td>
</tr>
<tr>
<td>Money is needed each year to cover annual expenses</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>The quay on Willemskade has to be build/constructed by others/third parties.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1: To start up this business, funds are needed. It is obvious that the business case of The Green Mile is not yet overall profitable. Annual contributions (by municipality) are necessary. When (cheap) equity could be invested in this company the financing gap could be closed. Then, when the income of the Aqualiner will increase over the years, the gap funding through JESSICA might become less and will be –over a longer period of possibly even 10 years or more- be recovered. However, there is a sure risk here whether any predicted end-revenues would actually be generated and even within an acceptable period of time.

2: The Green Mile predicts an interest rate of 6.5% that they need to pay to the bank for their debt financing (this amounts up to almost 40,000 Euro annually). This is a substantial higher rate than the percentage they should pay when lending money through JESSICA (or receiving any guarantee). This could correspondingly lower the operating costs (and related contributions). Also in this case the loan should be recovered over time. See comments made above.

It will be necessary that a quay has to be built on the Willemskade. The costs for this quay have not been taken into account in the business plan and will probably end up with the municipality. The quay itself will not generate substantial income (maybe some rent costs for Aqualiner or other users). A grant would be most appropriate. Jessica could only be of use when the costs are included in the total financial plan and JESSICA might recover its equity or loan in the longer term, as described above. However, this does not seem realistic because these costs will be too much of a financial burden.

**Possible financial delivery mechanism/structure**

It will not be feasible to establish any UDF for the project itself so this project should be able to profit from a UDF at any higher geographical level. The UDF will then possibly act as a business partner.

The scheme hereunder presents a model for a possible UDF in Stadshavens.
6.4 Binnenhaven Enschede

Background and rationale of the project
The project “Binnenhaven Enschede” is part of the Masterplan “Havengebied Enschede” 2005, in which the port-region is divided in several specific areas. Each area consists of multiple subprojects, which are implemented on a project-based approach. In this context several projects are already implemented and completed (i.e. restructuring Handelskade and restructuring project Ossenboer). Project Binnenhaven is the following subproject.

Overall project objectives
- Improving quality of the industrial area ‘Binnenhaven Enschede’;
- Making the quality of industrial areas also a matter of private interest (owners of the companies that are located in the area);
- Developing a public-private partnership (Real Estate development fund c.q. company) to maintain and improve the quality of ‘Binnenhaven Enschede’;
- Building a business-case for this public-private partnership.

JESSICA/ERDF eligibility criteria
The project “Binnenhaven Enschede” is linked with OP East. The main objective of this OP is formulated as: Development of the eastern part of The Netherlands into a leading European innovative region.

Priority axis 2 covers the urban area development that is taking place there. Priority 2 is described as follows: Enforce innovation climate in urban networks through:
- Improving accessibility and mobility
- Impulse to quality of work and living climate

Binnenhaven Enschede is an art. 55 project, the project can be structured in investments in infrastructure (grant) and investments in land and property (possibly relevant for JESSICA). A secured amount of public co-financing (2 million Euro) is available from ERDF.
**Project timeline**
The project starts in 2010 and is expected to run until 2012.

**Project status**
- The project is in the stage of realising a feasibility analysis, after which it is ready for implementation.
- There is a business plan (financial accountability of the development plan Binnenhaven e.o.) available.
- Contractual agreements are still on a limited scale. Financing agreements are being investigated.
- The desired developments fit in the current zoning-plan (municipal land use plan).

**Contributors**
Project promotor(s) are the Community of Enschede and the BOH (interest group of entrepreneurs port-region). Project partners are Region of Twente, Province of Overijssel, HMO (Restructuring Company of Overijssel), private real-estate owners, ie. the owners (either the entrepreneurs themselves or third parties) of current companies or land at the Binnenhaven.

**Project economics**
In the project public and private property will be brought together in a Real Estate development fund/company. By doing so an opportunity is created for private real estate owners to increase the value of their property. Instead of owning one or more buildings they become shareholder of a fund. For them it’s a way to spread risks, work on value development and make their possessions easier to trade.

Of public interest is that this project increases the responsibility felt by private parties to improve the quality of the Binnenhaven by transforming the quality of the area into a business case (and opportunity).

The planned interventions are:
- Establishing a public-private Real Estate Development fund (company);
- Bringing in all public property in the fund (land, quays, real estate);
- Offering private owners the possibility to participate in the fund;
- Developing a model for the exploitation of the property;
- Restructuring of the industrial sites and their premises; possibly re-sale of any land made available.

The total investments in the area are approximately 39 mln, consisting of 22 mln by the Real Estate company, 11 mln by private owners and 6 mln by the local authority (Community of Enschede). These latter public investments are primarily focused on providing infrastructure. The private owners are triggered to invest in their property because the Real Estate company is going to invest and the local authority is investing in new roads etc.. So it is expected that by taking the lead through the establishment of a real estate development company, a multiplier of investments can be created.

<table>
<thead>
<tr>
<th>Estimated project costs</th>
<th>Private owners</th>
<th>Real Estate company</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation of current real estate</td>
<td>7,5 mln.</td>
<td>7,5 mln.</td>
<td>15 mln.</td>
</tr>
<tr>
<td>Investments</td>
<td>2,5 mln.</td>
<td>7,5 mln.</td>
<td>10 mln.</td>
</tr>
</tbody>
</table>

**Estimated project costs**

<table>
<thead>
<tr>
<th>Current assets to be redeveloped</th>
<th>Private owners</th>
<th>Real Estate company</th>
<th>Total</th>
</tr>
</thead>
<tbody>
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</tbody>
</table>
Reduction in value by demolition | 1 mln. | 2 mln. | 3 mln.
Investment in landing stage | 5 mln. | 5 mln.
Infrastructure (local authority) | 6 mln.
Total | 11 mln. | 22 mln. | 39 mln.

The provision of funding for the resources of the Real Estate company is as follows:

| Private owners (at value of their current real estate) | 7.5 mln. |
| Bankers | 4.5 mln. (estimated) |
| Public co-financing: | |
| Local authority (council)/ National funds/County funds | 5 mln. |
| European and other funds (possibly including JESSICA) | 5 mln. |
| Total | 22 mln. |

It is estimated that during the restructuring of the private property the new established Real Estate company will approximately destroy a value of 3 mln by demolition. Eventually this will be recovered in the next years by rebuilding and land and property rents or sales. By restructuring the complete area, the new rents per square meter will be significantly higher than the current rents. The estimated overall end-revenues for the Real Estate company have been estimated at approximately 6 percent (1.4 million Euro).

Since a] any restructuring process is of a higher risk than is the case with 'normal' real estate deals and b) finance institutions ask for an improved leverage, funding by banks is only partially possible. Obviously, the risks involved are finding new entrepreneurs which are able and willing to pay for the land and/or real estate redeveloped.

Type of JESSICA intervention

<table>
<thead>
<tr>
<th>problems</th>
<th>loan</th>
<th>subordinate loan</th>
<th>equity</th>
<th>guarantee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uncertainty of availability of external capital/loans</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Shortage of equity when calculated grant agreements (5 mln including EU) will not be met</td>
<td>x</td>
<td>x</td>
<td>2</td>
<td>x</td>
</tr>
</tbody>
</table>

1. JESSICA could support the project by providing a (subordinate) loan, guarantee or equity to the new established Real Estate company (owners of this company are the local public authority and possibly private owners who contribute their land and buildings and profit from the revenues involved in restructuring the sites, premises and public space/infrastructure). By granting a loan, guarantee or equity through JESSICA it might become possible for the company to get the necessary additional funding from banks or other financial institutions or investors.

2. If the foreseen amount of grants available will not be met (this is not yet fully secured) JESSICA might provide both equity or a low interest rate loan to fill this gap. However, if this would be the case, a necessity to actually recover this money would exist, while this is not the case with grant money. This money recovery would not be feasible considering the expected total revenue at 1.4 million Euro, that would be much lower than the investment costs (against an additional loan of eg. 2 or 3 million).
However, here, as in any case, it is highly relevant what added value is generated by using loans, guarantees or equity vs. being awarded a subsidy. The latter, obviously, does not have to be paid back and assures private parties or other partners just as well of the fact that public sector brings in non-risk bearing capital. The critical conditions required, therefore, are

a] whether the money invested is needed again at a later stage (if not a grant will be preferred by partners at project level, or if yes a revolving investment like JESSICA could be preferred), and
b] whether the public authority is aimed at optimizing the efficiency of its public financial means, or not necessarily; and
c] whether any money invested will be able to be recovered at all. If this is not the case, then using JESSICA is not an option.

Possible financial delivery mechanism/structure

If chosen to implement JESSICA it will not be feasible to establish any UDF for the project itself so this project should be able to profit from a UDF at any higher geographical level. The UDF will then possibly act as a business partner within the Real Estate Company. As mentioned earlier, a pilot UDF for one project is possible.

The scheme hereunder presents a possible model for a UDF (The Real Estate Company) in Binnehaven Enschede.

6.5 Belvedere Maastricht

Background and rationale of the project

The redevelopment of the Belvédère Maastricht intervention area links up with the Municipality of Maastrichts policy for the future. Numerous possibilities and opportunities will be created in the coming twenty-one years. Maastricht needs room for new housing developments, while Belvédère offers space for approximately 2,000 new homes. Industry makes way for a knowledge and service-based economy. Belvédère will create between 90,000 m2 and 150,000 m2 of business locations. Maastricht wishes to develop as a regional commercial centre. In time, Belvédère will become a welcome extension of the existing shopping supply. Increasing mobility requires the
opening up of Maastricht-West, while the redevelopment of Belvédère makes it possible to improve the traffic infrastructure. The further development of Maastricht requires the expansion of urban facilities and the addition of new functions. Culture and recreation are given free range in Belvédère.

**Site description**

Belvédère Maastricht is one of the most imposant urban developments in the Netherlands (280 hectares). The former Sphinx site with its monumental buildings is situated within the Binnensingel sub-area. The ceramic industry dominated the landscape for a long time here. The colossal white Sphinx building, "De Eiffel", will serve as a reminder of this. The Sphinxkwartier will become a bustling expansion of the town centre. The area will comprise housing in an urban pedestrian setting with squares and green zones. A residential area that slowly changes in a northerly direction into shopping facilities specifically focusing on aspects in the field of multimedia, living & lifestyle, and sports. Historical land becomes the breeding ground for a new connection between quality in housing and high tech. The Sphinx will total fourteen apartment complexes, including De Eiffel, all with a view of a residential court. Added allure is created on the ground floor with ground-level access urban housing with gardens. In addition the area on the opposite side, the bassin and the Timmerfabriek, will be developed into a cultural area. The Sphinxkwartier is within walking distance from the centre and situated on the Eindhoven and Luik access road.

![Map of Maastricht](image)

**New urban mobility**

The Sphinxkwartier is the last development location in the centre of Maastricht and it is an important and promising project. The future relocation of the Noorderbrug makes it possible to develop the Frontenpark. The old fortifications in the Frontenpark are presently undiscovered areas within Maastricht. The new park can be compared with the Aldenhofpark in Maastricht. Unexpected green parks close to the centre give the Sphinxkwartier a special quality of life: close to the town, with park and cultural facilities.

**New social life**
In the area "within the canals" the characteristic Bassin is the last urban area where new functions can be added. These functions will preferably complement the town centre and are characteristic for the area: entertainment, catering, creative industry, leisure, living, working and shopping. With this the Bassin can develop into a colourful melting pot of interrelating, reinforcing functions, creating a lively area with quality, the "Soho" of Maastricht.

New sustainability
Innovative sustainability is of overriding importance within the Sphinxkwartier. The application of solar panels, innovative water management and green inner areas are important in the area. The blocks will be connected to Maastricht's district heating.

Programme
- The programme consists of the development of houses (1,500 – 2,500), businesses and offices (90,000 - 150,000 m²), retail- cultural,- leisure facilities and off course the necessary design of public space.
- The total investment consists of approximately 1.3 billion euros.

Project timeline
The time schedule of the total project focuses on project completion and last investments having been made and direct returns (returns on sale of land, property) having been received in 2028.

Project status
- The project can be divided in several smaller projects. Some of these projects are being developed, while others are in the stage of feasibility analysis.
- There's an exploitation plan available.
- Contractual agreements have been made.
- Financing agreements have been made, but need adjusting due to the withdrawal of ING.
- The desired developments fit in the current zoning-plan (municipal landuse-plan).

Contributors
The WOM (Wijkontwikkelingsmaatschappij Belvedere) is the project promoter. Its members are the municipality, ING Real Estate and Bouwinvest. The BNG is the main financier of the WOM.

Project economics
The project of Belvedere is one of the biggest area developments in the Netherlands. The economic crisis has had a major influence on this area development, because the financial crisis has led to the withdrawal of ING Real Estate out of the development corporation. The BNG (bank) provides a necessary loan (of 68 million). The amount was matched by the WOM (with a totalled equity investment of 80 million). With the withdrawal of ING Real Estate (who stood up for 33 percent of the equity, ie. 27 million Euro), the agreement and the development is now under great pressure. There still is a profitable project, but the equity and debt needed to develop are now partly lacking. The area development of Belvedere has definitely a financial problem. If another private party could take over the role of private developer and can come up with the money, than also the BNG can fulfil its role in the project.
Type of JESSICA intervention

<table>
<thead>
<tr>
<th>problems</th>
<th>loan</th>
<th>subordinate loan</th>
<th>equity</th>
<th>guarantee</th>
</tr>
</thead>
<tbody>
<tr>
<td>The BNG will not lend any money to the WOM, unless private parties match this sum.</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

1: The WOM is in need of private equity. It does not matter whether this is in the form of a loan, a subordinated loan, guarantee or via equity. However, the amount needed is quite high. It is not likely that the MA will provide a loan of that magnitude. It would be more likely that the MA could provide partial equity or a partial loan (eg. 10 percent of missing volume, ie. 4 million Euro) or give guarantees so that other private investors can step up. In that case the equity, loan or guarantee will function as a leverage for other private parties.

Possible financial delivery mechanism/structure

Logically, also this project should be able to profit from a UDF at any higher geographical level. But considering the volume of equity and debt needed it might even be feasible to establish a UDF for the project itself. The UDF will then become the new investment vehicle for the project and its parts/subprojects and of course become a business partner.

The scheme hereunder presents a model for a UDF on Belvedere-level.

6.6 Conclusions

Stadshavens Rotterdam
The case study Katoenveem is a project that fits perfectly within the framework of JESSICA. The problem is purely financially. In the long run public and private parties acknowledge that the former warehouse will be a revenue generating (and possibly profitable) project.

In the case of the Green Mile we can conclude that any form of public transportation will depend on some input from public funds. For the Green Mile it is uncertain if revenues will increase over time. In theory more people could use the Aqualiner, resulting revenues to increase. However, it is uncertain that this will occur. We have determined, that the case of The Green Mile is possibly too small on its own. However if you could see this case as a part of a wider area development, it would be of added value and therefore could for sure depend on JESSICA funding.

These case studies are small projects. Preferably an overarching UDF could be set up. This fund (on possibly Stadshavens –level) would have the opportunity to be flexible with investments and could better spread risks.

Belvedere Maastricht
Belvedere is a major area development with a major financial problem. In this case (since ING stepped back, and the economic crisis increased) market failure can be evidently determined. JESSICA can fill this market gap from either an investment perspective: by providing equity for investments that regular public or private sector investors or other partners are not willing to provide; as well as a from a financing perspective: by providing equity, loans or guarantees that the regular banks and other investors refuse to provide.

JESSICA could be of added value. Considering the volume of equity and debt needed, it might even be feasible to establish a UDF for the project itself. But the gap can also be too big. It might very well be the case that equity, loans or guarantees needed by the project is of a substantially bigger volume than available within the existing or future ERDF-funds for the region. Logically, the next step within the project would be to search for another partner or consortium that might bridge the gap left together, so that funding through JESSICA can act as leverage capital.

Binnenhavens Enschede
JESSICA could be of added value to Binnehavens Enschede. The main question in this case study was the necessity to pay back the loan from JESSICA vs the non repayable grant. If the foreseen amount of grants available will not be met (this is not yet fully secured) JESSICA might provide both equity or a low interest rate loan to fill this gap. However, if this would be the case, a necessity to actually recover this money would exist, while this is not the case with grant money. This money recovery would not necessarily be feasible considering the expected total revenue.

This case study proved that it should be made perfectly clear where the added value of equity/loans is above subsidies. If the same amount of money is available either as subsidies or as equity/loans, the question is quickly raised by administrative officers as well as project beneficiaries why they should bother with administrating or repay loans. For the administrative financial officers this is important because they will neither be able to use the money in the mean time. The added value of being able to recover the money and reinvest it (‘making two euros out of one’) should be made apparent. If this is not necessary for a project then there is no clear case for JESSICA.

The issues resulting from the case studies can be effectively summarized by the following figure.
The issues mentioned and conclusions drawn out of the case studies will be comprehensively further described in the following chapter, split into issues as part of the SWOT-analysis, conclusions about added value and the necessary conditions to reach the possible added value.
7 SWOT-analysis, added value and conditions

7.1 SWOT-analysis

7.1.1 Strengths

Leverage and assurance can lead to a kick-start
When a project is in need of equity JESSICA can provide this and likewise improve the leverage between equity-debt. Improving the leverage is a major factor in the current market situation and is expected to be so also in the near future. Furthermore, leverage is necessary to attract investments because only the difficult sites remain to be developed. JESSICA can provide a kick-start here. In addition, it can provide additional debt or guarantees and therefore secure the credit facilitation from banks. The acquisition of external capital for a project is made easier through the provision of extra equity, loans or guarantees by the urban development fund.

JESSICA is relatively cheap
The financial criteria that JESSICA should meet can be set by the relevant public sector government bodies, ie. the management authorities of the four Operational Programmes. These could decide that interest rates, dividend rates etc will be below market rates (eg. 1.5 percent annually for a loan for 20 years), that repayment conditions are favourable, etc..

JESSICA is revolving and therefore efficient: 1 euro becomes 2, or 3...
Through its revolving principle JESSICA allows for more investments in city areas. The revolving use of funding is the central idea. Money can be spent multiple times and therefore more efficient. When loans will be repaid, guarantees finished or equity can be reused, the funds can be invested in either (other parts of) the same project or in other projects, within the target area of the fund (eg. a specific geographical area, a specific area development, etc.). It permits cities to have a clear and demarcated long-lasting investment channel with regional and EU investment resources.

An additional advantage is that after a first investment cycle, the use of the capital which has flowed back to the UDF is no longer subject to ERDF eligibility criteria and that it must primarily be invested within the meaning of sustainable urban development. After the renewed return and UDF exit, ERDF resources contributed to the fund are in fact freely available to the relevant governing public sector body.

JESSICA increases flexibility and reduces risks
JESSICA provides the opportunity to use the funds in a flexible way. Funds can be spend on different projects, so risks are spread and it can easily adapt to local changing markets. The flexibility of JESSICA increases even more when revenues revolve back in the urban development fund.

JESSICA promotes cooperation and therefore even more advantages
Increasingly public-private cooperation also raises the leverage on private know-how which is introduced in support of sustainable urban development. JESSICA provides a good opportunity for public and private sector parties to learn from each other.
**JESSICA gives public authorities an influential position to protect public objectives**
Public authorities are potentially given a decision right in all phases of project development. Public authorities possibly need to play a significant role in (e.g.) PPP’s. As a result public objectives can be protected better. Public authorities might very well see an increasingly stronger negotiation position towards any other, private sector, partners.

**Holistic approach, higher quality, longer lasting**
JESSICA approaches urban regeneration from a holistic point of view. Sustainable, high quality developments are the key factors of the future. The cities will benefit from this approach. In the long run this means lesser costs because of higher quality development.

**Improves commitment of partners/beneficiaries**
The fact that projects will receive not just grants but merely loans, guarantees or equity will surely lead to a stronger commitment by partners/beneficiaries if entering in such an agreement.
Therefore JESSICA will create stronger incentives for successful implementation.

**Using JESSICA might bear administrative advantages (N+2)**
Once contributed to an urban development fund, the ERDF funding is regarded as having been disbursed. This means that it no longer runs the risk, in accordance with the N+2 rule, of having to be repaid to the European Commission if it is not drawn on, which represents a major administrative advantage. The proof of use of the ERDF resources by the fund must be provided by the end of 2015, with the result that the urban development fund must have disbursed the funding to projects (and proven this) by that time.

### 7.1.2 Opportunities

**Urban development will remain challenging**
Within urban development schemes there is a long term major shift from greenfield developments towards brownfield redevelopment. In short: only the difficult project sites remain, with often complex challenges regarding infrastructure, sanitation, replacements etc. These are the sites where profits are usually difficult and uncertain. These projects face the biggest challenges and are in need of the most money, loans and guarantees. JESSICA is ideally suited for these urban development projects.

**The economic crisis: in need for equity and debt**
The economic crisis has an effect on financial institutions, developers, investors and almost all other stakeholders. Financial institutions have tightened their rules and criteria in relation to equity as well as to solvability criteria for debt financing. This effects private sector parties who often cope with solvability problems (for those that depend also on debt capital). These solvability problems arise due to lower sales figures of real estate as well as decreasing values of properties.

**Changing playing field for housing associations**
A recent agreement between the European Commission and the Dutch Ministry of Housing & Planning has ruled that housing corporations need to a] label their residential building activities for 90 percent to households with a gross income below 33,000 Euro and b] restrict themselves in commercial activities (non-compliant with the definition of ‘services in general interest’). This results in the fact that they can’t use cheap lending facilities or guarantee facilities anymore for the remaining commercial part of their activities. This would result in a market gap where JESSICA can provide solutions.
Stakeholders seem enthusiastic
Practically all stakeholders are (in theory) enthusiastic about JESSICA as a new funding mechanism. Every stakeholder is convinced that there is a sense of urgency. A lot of projects are on hold, because markets have collapsed. Shortage of equity or debt is often one of the main reasons.

Exercise in future public financial instruments - anticipation on policy changes
It is likely that, in a next EU Structural Funds period, grants will be decimated. They might be replaced by other financial instruments, indeed like loans and guarantees. Urban development will need to become less dependent of public grants and JESSICA is a useful introduction to this new way of thinking.

Specialist expertise to be made available
An option when implementing JESSICA will be to use financial and managerial expertise from specialist institutions such as the EIB, the CEB, other IFIs or national financial institutions. This might well enhance the efficiency and effectiveness of deployed public capital through JESSICA.

A stable, trustworthy partner
It might be seen as an advantage by for instance local municipalities that the partner coming to the table (a UDF) is pretty independent and not having an important stake in eg. getting as much profit as they can out of building as much property as possible. A UDF might be considered a stable, trustworthy partner.

JESSICA could evolve into a brand - if marketed right
In longer term, JESSICA could be seen as a brand, a sustainability label for projects. If a project is financed through JESSICA it means that it is a (financially) sound and sustainable project developed within a high quality framework. With UDF-financed projects implemented and market obstacles successfully overcome, UDF interventions are then likely to create a “quality stamp” and boost the image of a project or even the wider district. Logically, this asks for a coherent marketing strategy.

7.1.3 Weaknesses

More JESSICA means less grants
In the current situation, committing money to JESSICA by Management Authorities, means for them that there is less –easier to spend- grant money available. While the end-result will be that JESSICA only increases the money available through a trigger effect in incorporating the private sector, public sector officers at local and regional level often perceive the decrease of traditional grant money as a less appealing perspective.

JESSICA is bound by ERDF criteria/programmes
By definition, the use of funds for JESSICA is seen as committed to ERDF funds. If not in limitation to the Structural Funds regulations and ERDF eligibility criteria itself (eg. this is not to be used for residential development/housing), a limitation lies in the fact that use is bound by the total amount of money available within ERDF. This is not formally the case, but is very much perceived so. There is no buy-in (yet) to redirect money from other public grant schemes (eg. the ISV3-budget; the national investment programme for urban renewal, or MIRT, the infrastructure investment programme) towards equity, loans or guarantees.
For now, JESSICA is late – many funds have already been earmarked

After the first refusal by Dutch government, JESSICA is now being tried to relaunch in the Netherlands. However, now it is relatively late in the current Structural Funds period; many if not most ERDF funds/OP resources are already pre-assigned to specific priority axes and projects by the Management Authorities.

Minimal value might be too high – in relation to what is usual in ERDF-programmes

In order to achieve substantial outputs – and be of added value to the current available financial funds, instruments and systems – the sums of money to be invested through JESSICA need a minimal size (e.g. in providing equity, but also loans or guarantees) that often will be higher than is usually seen within the current ERDF-grant programmes. Often a minimal size of one or several million of euros will be required. This is also the case because out of the fund the management fees need to be paid. Compared to grants the administrative and management structure is different.

JESSICA is still under construction: there is a big need for ‘evidence’

Many stakeholders are enthusiastic, ‘in theory’. But there is also a severe need for ‘evidence’: how does it work, will it work, what are the conditions, how much administrative procedures will there be, etc etc. The fact that ‘hard’ evidence can not readily be shown, can be considered a problem as people are less likely to pursue the use of JESSICA. This – this needs to be said – holds more true for the public sector than for the private sector. The latter is more ‘go-getting’, in that respect.

JESSICA is ‘difficult’, needs ‘additional’ resources and know-how

Use of JESSICA asks expertise that often is not available within the relevant public sector government bodies such as the Management Authorities or the participating provinces, regions and municipalities. It requires resources, know-how and structures that are – at the moment – unlikely to be readily available. The administrative structure has not yet been tailored to the use of JESSICA/urban development funds, and they are not well placed to estimate the capacities required for the administrative operation of funding activity. The organisational issues and frictional losses (of time, energy, capital) that can be expected here will take time to resolve and will tie up capacity.

7.1.4 Threats

Why loans instead of subsidies?

Amongst stakeholders at project level a certain attitude is understandable in whether to use either equity, loans or guarantees (all to be covered with interest, dividend, or to be repaid or recovered) instead of subsidies – when available as well- that bear no further financial consequences (albeit that there is a lot of administrative effort to be put in reporting, accounting etc). Why should they bother if the money is more easily available? This transition of mind shift takes time, but the future of grants is at stake from the side of the European Commission, so it is not always perceived it might be better to start as an early adapter.

Culture: not used to equity, loans, etc

There is not a culture in most of public sector government bodies about being used to deal with equity, loans and guarantees. Institutions are more used to govern subsidy schemes. When in PPP-projects in brownfield redevelopment, the public sector often is not a risk taking participant (albeit with some noteworthy exceptions such as the Station area development in Den Bosch). The public sector is used to make contractual arrangements where profits from land sale are derived on the one hand and investments in sanitation, parking, public space, green areas, public real estate, etc are financed with those same revenues at the other hand, possibly added to by subsidies. And,
where risks are being cut off as much as possible. If risks are taken indeed, this is mostly in
greenfield developments such as the large-scale VINEX-locations (major housing estates on the
edge of cities throughout the country) as we can see in GEM Arnhem Schuytgraft, etc.. Here, the
land revenues have predominantly been much larger than costs and the risk factor was relatively
low.

Urban development increasingly bears higher risks and shortages in business cases
As stated earlier, urban development projects evolve into more and more complex and long term
brownfield regenerations with often negative business cases and higher risk profiles. Therefore,
a] the use of JESSICA can result in an even increased complexity (at least in the perception of the
professionals involved),
b] there are no revenues to be generated or revenues can not be paid back as loan recovery,
interest or dividend, and
c] the risk associated with public loans, guarantees or even participations/equity is higher.

JESSICA also faces the economic crisis: problems, gaps too big
As a result of the economic crisis, there continue to be difficulties for private parties in raising third-
party capital. This might result in gaps that can not be filled by using JESSICA – even when
JESSICA might have a spin-off to other financial institutions- because they are simply too big (eg. a
need for 25 mln euro equity for an area development project), which can only be improved to some
extent by the instruments of the urban development fund.

Fear of State Aid
Considering that JESSICA will operate in the framework of Structural Funds (public funds), its
implementation should be considered in the light of State aid-regulations. In light of the above,
many professionals and politicians question the issue of State Aid. If there will be no clear-cut
answer to this and the risk of State Aid will continuously exist, the enthusiasm for the use of
JESSICA is likely to suffer.

The primary issue will be the verification whether there will be no preference of one party over
another at subsequent stages of JESSICA’s creation and operation, as such preferences could
have impact on trade exchange in Community scale, consequently leading to violation of
competition. Those will be primarily the issues associated with the relations built between MA and
HF or UDF, with the determination of HF and UDF remuneration, with support provided by UDF for
specific projects, or the issues related to the public bodies’ investments in UDF and HF. This is
because a body which receives support under JESSICA may be forced to return it, should it turn
out that such support was a case of unlawful State aid. These risks include the timescales to secure
approval and the conditions that the EC may impose within any approval. Another aspect that
needs to be taken in view are the limitations on cumulating with possible other State aid at the
project specific level, where applicable.

It should be stressed, however, that not each support provided under JESSICA will automatically
constitute unlawful State aid. For when the bodies will act on market terms and the funds
under JESSICA will be provided on market terms, the risk of unlawful State aid should not come to
exist.

Political risks/image
Following from the above (different culture, big gaps, higher risks, fear of State Aid), politicians are
likely to be hesitant in involving in JESSICA. In the Netherlands, over the years, issues around
favourable loans to private sector parties have been surrounded by examples of political crises and
politicians that needed to step down accordingly (eg. Ceteco-affair Province of South-Holland).
They are afraid that their integrity or even image of integrity might be questioned by the public, media, etc..

**Fear of disproportionate or unwelcome new/extra administrative/legal/contractual issues**

Introduction of JESSICA might inflict disproportionate or unwelcome new/extra administrative, legal or contractual issues. If decided that JESSICA could be of value for any project, there might well arise a need or an urge to introduce whole new administrative procedures and revise contractual discussions, agreements already made or other issues. This—or even the fear of this—could hamper the willingness of parties involved to pursue the implementation of JESSICA.

**Conservative attitude towards Europe/European Funds-related issues**

In the Netherlands exists a somewhat restrained attitude towards Europe. You will find a generally negative image of Europe and what Europe represents, often including European Funds as far as people know these and have experiences with these. This often lies in the image of long and detailed administrative procedures and a lot of bureaucracy. Obviously, if copied this image onto working with equity, loans etc this will probably inhibit people to pursue the use of JESSICA.

### 7.1.5 Summary overview SWOT-analysis

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved leverage</td>
<td>Development challenges remain</td>
</tr>
<tr>
<td>Increased assurance</td>
<td>Permanent need for equity and debt</td>
</tr>
<tr>
<td>Possibly cheap money</td>
<td>Decreasing financial facilities for housing associations</td>
</tr>
<tr>
<td>Revolving</td>
<td>Stakeholders enthusiastic</td>
</tr>
<tr>
<td>More efficient than grants</td>
<td>Public grants will decimate in near future</td>
</tr>
<tr>
<td>Flexible, risk reducing</td>
<td>Specialist expertise might increase efficiency</td>
</tr>
<tr>
<td>More capitalisation on private sector know-how</td>
<td>Stable, trustworthy partner to the table</td>
</tr>
<tr>
<td>Holistic approach, higher quality = longer lasting</td>
<td>Increased power public partner at several levels</td>
</tr>
<tr>
<td>Administrative flexibility regarding N+2-regulation</td>
<td>Could evolve in to quality brand</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Weaknesses</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>More JESSICA = less grants</td>
<td>Why loans instead of subsidies?</td>
</tr>
<tr>
<td>Bound by ERDF-criteria and programme volume</td>
<td>Culture: not used to equity/loans</td>
</tr>
<tr>
<td>Many funds already earmarked</td>
<td>Urban development more and more complex: increasing complexity, adding risk factor</td>
</tr>
<tr>
<td>The gap between what is needed and what is available through JESSICA could be too big</td>
<td>Economic crisis: problems, gaps too big</td>
</tr>
<tr>
<td>Still under construction: no evidence yet</td>
<td>Political risks</td>
</tr>
<tr>
<td>Need for additional know how and expertise. The MA’s do not have experience with revolving funds.</td>
<td>Fear of State Aid</td>
</tr>
<tr>
<td></td>
<td>Fear of disproportionate new/extra adm/legal/contr. issues</td>
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<tr>
<td></td>
<td>Conservative attitude towards Europe/EU-funds</td>
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Logically, an action plan/implementation plan should address the weaknesses and threats while building on the strengths and seizing the opportunities. This will be addressed in chapter 10.
8 JESSICA: Added value or not?

8.1 Added value for stakeholders involved

In this paragraph, we will give an overall assessment of JESSICA’s potential added value for the individual stakeholders (i.e. national government, cities (with their Managing Authorities/ Municipal bodies), public or private project promoters, and public or private financing partners).

Benefits for National government

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

Benefits for the cities (with their MAs and municipal bodies)

- The Jessica framework will support cities by investing venture capital within local spatial projects. This will reduce the risks for the cities, and the loan will not be part of the local balance sheets.
- By investing ERDF-funds in city projects, the amount of capital a city has to invest will be reduced. This means that a city is able to develop more spatial projects with the same amount of own funds.
- As the Jessica framework makes the ERDF-funds revolving, cities can use the funds several times in the future. This also means that more local projects can be developed.
- JESSICA permits cities to have a clearly demarcated and long-lasting investment channel with regional and European investment resources.
- The JESSICA-framework will make national government (through Regions) more involved within projects. This can lead to stronger partnership between cities and government.
- For Cities with enough deal-flow a UDF could be set-up on city level. This can make the ERDF-means sustainable within the city.
- Cities will be involved in the governance of a new financial instrument (UDF), which will provide them to develop investment skills.

Benefits for the private sector

- The Jessica framework will provide public-supported venture capital for local spatial projects. This will reduce the risks for private actors.
• The Jessica framework and the revolving nature of the ERDF funds enables cities to develop more spatial projects. This will increase the amount of development opportunities for the private sector.

• Within the Jessica framework, projects will be clustered and be brought to the private market. This will reduce the transaction costs for the private sector (like institutional investors and banks, ie. Any possible partners within a UDF) to invest.

• The MA and its constituent partners, as manager of these funds, will, with technical assistance of some professional partner (eg. the EIB or BNG), be an experienced partner for shared investments with the private sector. This makes them a professional and solid partner for the private sector.

• The JESSICA-framework enhances the engagement of the public sector towards complex developments. This can streamline public actions such as planning procedures, awarding of supplementary grants or public investments related to the project.

• The public involvement could ease finance conditions for the project.

### 8.2 Added value for the market is defined by complying with critical conditions and criteria

**There should be a clear case on the added value of equity/loans instead of subsidies**

If the same amount of money is available either as subsidies or as equity/loans, the question is quickly raised by beneficiaries why they should bother with administrating loans, etc.. Not to the least because they won’t be able to use the money in the mean time anyway. The added value of being able to recover the money and reinvest it (making two euros out of one) should be made apparent. If this is not necessary for a project (eg. because they actually only need the money once, the timeline of the project is so short that reinvestment is not an issue, if public sector is not interested in any revolving use, etc) then there is no clear case for JESSICA. When bridging any finance gap, external capital providers will ask for any risk-bearing funds. Grants are even less risk-bearing capital and don’t even have to paid back (unless restrictions and risks of non-spending and pay back are high) so they will be accepted even more easily than equity or loans that both need to be recovered and/or even paid for.

**Is there any extra money above available grants? Not now, but after 2013 surely … !?**

Of course there will surely be a case if using JESSICA would mean that additional funds would be made available – on top of any subsidy already granted. However, this is not expected to be the case in the current programming period, but might certainly be the case in the next programming period (because of the fact that regular grant schemes will be decimated).

**The case for JESSICA lies in any need for extra/revolvable funds….**

The most logical case for JESSICA is when the provision of equity, loans or guarantees means that available funds can be re-used. Eg. in a cash-flow of 20 years, 1 Euro could actually be invested twice. Any recoverability options could of course be preferable –from a public sector efficiency view-over both shorter and longer lasting periods, but it will be more logic to recover and also reinvest if there is a longer lasting time line or a reinvestment option elsewhere in other project parts, etc..

**…but there needs to be explicit added value above traditionally available funds and financial instruments: bigger sums, lower rates, better conditions, a trustworthy partner, off-balance financing**

Public bodies in the Netherlands, just as housing associations (albeit restricted) can lend money at below market rates with the BNG. They have also the opportunity to invite the former OPP (now BNG Gebiedsontwikkeling), or of course any other partner, to participate with equity. For them to experience true added value of the use of JESSICA, either the available sum of money should be substantially bigger, the rates should be substantially lower and/or the conditions should be
substantially more favourable. An additional advantage could be that the partner coming to the

table (a UDF) is pretty independent and not having an important stake in eg. getting as much profit
as they can out of building as much property as possible. A UDF might be considered a stable,
trustworthy partner. Again another advantage is that the loan will not be on the balance sheet of the
municipality.

….or there just needs to be a simple market gap to be filled: and that might well increasingly
become the case (but needs to be well argued related to possible State Aid to private sector)
JESSICA can fill a market gap from either
a) an investment perspective: by providing equity for investments that regular public or private
sector investors or other partners are not willing to provide; as well as a from
b) a financing perspective: by providing equity, loans or guarantees that the regular banks and other
investors refuse to provide. For the private sector, this would mean that market failure occurs.
When this is the case – as is one of the important underlying presumptions when using JESSICA
with the private sector- the instrument will certainly be of added value. But indeed, only if this is the
case. Then, fear of State Aid might be minimised as well, as long as the existence of market failure

can be well argued. There is a justified expectation that this type of market failure might increase
over time and will inhibit the private sector to invest in urban regeneration. Just as for the private
sector, the added value of JESSICA for the public sector would exist mainly if the usual
lenders/partners refuse to provide loans or participate. As capital is increasingly becoming scarce
this might very well become the case more often in the public sector as well.

But: the gap might be too big; enough revenues might be out of sight
As stated, urban development becomes more and more complex and more expensive. This brings
about a higher risk factor and adding the economic crisis also ensures for major gaps in business
cases and cash flows. It might very well be the case that equity, loans or guarantees needed by
projects are of a substantially bigger volume than available within the existing or future ERDF-
funds. Logically, the next step within the project would be to search for another partner or
consortium that might bridge the gap left together. But in an increasing number of cases this will
neither solve the problem. In many of those cases the project will not be continued or be completely
reassessed or redeveloped.

A (quick-scan) financial due diligence is always needed
A (brief) financial due diligence will help not entering in endless discussions about using JESSICA
when there is no real solution there.

Have a clear view on State Aid (at EU level as well as project level)
As stated earlier, market failure would be a justified argument to use JESSICA for support of private
sector investments. However, this certainly needs to be argued well. Another risk of State Aid
occurs when the competition rules are not well applied (eg. by selecting partners). There still is
much debate about State Aid (also because of ignorance about the exact rules, but for a few
experts) and fear for to be questioned about this throughout the country, certainly with politicians.
Therefore, it is highly needed that the Commission gives a clear view on the issue of State Aid
related to the implementation of JESSICA.

Have a clear view on local cultural and political opportunities, issues and risks
Based on issues mentioned earlier, there is a clear need to have a clear view on both cultural (how
are we used to work and do we want to adapt to changing instruments and demands?) and political
opportunities, issues and risks. An ambivalent attitude towards lending by public sector bodies, the
fear of State Aid, possible issues of integrity, etc combined with an often conservative attitude
towards Europe/EU-funds makes it necessary to not only perform a financial due diligence, but
have in-depth discussions on how to optimize the use of JESSICA and not be hampered by all kinds of questions that not necessarily need to evolve into problems. It should not be forgotten that public sector (MAs) have a large role in the conditions, etc..

When some part of an overarching project is non-revenue generating but indirectly leads to revenues JESSICA should be able to be used for also the non-revenue generating parts
When conducting a “due diligence” whether to see if a project fits with JESSICA there should be a flexible view on the definition of ‘a project’: sometimes an entire area redevelopment scheme with an investment of 1 bln euros is called a project, but at the same time an investment of 45.000 euros in some public street furniture in a specific square is called a project too. Clearly the realm of JESSICA does not lie in hundreds or even tens of millions of euros in one single ‘project’ but it can be of great importance to invest a specific sum of money into a project where this money is being divided over a number of smaller projects, or even parts of projects, so called ‘sub-projects’. The central idea is that equity or loan recovery or either payment of dividend/interest should be primarily possible on the overarching project level. This means that if any investment with JESSICA money is being done into non-revenue generating parts of an overarching bigger project where revenues will be generated, whether or not linked to the specific JESSICA-investment, it should be feasible to use the JESSICA money – it can be repaid with the money indirectly raised.

There should be a positive balance between opportunity costs and (financial) value added
In theory, a UDF can invest in a wider project that consists of many smaller projects, where JESSICA money is used for one relatively small aspect of the total project investment (eg. a specific sanitation). However, the value added of using JESSICA vs. using a regular grant or vs. drawing debt from a private sector financial institution or even a public sector institution (like the BNG with its favourable rates) should be higher than the opportunity costs involved (setting up or drawing from a UDF, administrating, managing and monitoring, payment of interest, dividend, etc).

Public sector governing bodies should set financial rates (interest, dividend) below market rates
Logically, if money attracted through JESSICA is in fact not more readily available or either cheaper than at market rates with commercial financial institutions (for private sector) or with national financial institutions (for public sector), there won’t be sufficient added value of JESSICA.

Have a clear view on revenue potential vs. payback needs: if no potential then try grants or seek combinations with revenue generating parts of a possible wider project: offset of profits and losses
Projects should have any revenue potential (let alone to be compliant with article 55 projects). This clearly means that any revenue should be generated by the investment done. This could be land revenues (eg. after sanitation/rehabilitation), sales revenues (of real estate), etc.. However, this should not necessarily mean that the entire business case of the project, development or totalled investment should be positive. The urban regeneration market will show (as stated in earlier chapters) that these type of projects will become scarce. JESSICA is designed to support difficult investments and it should be able to actually do so. Nonetheless, there needs to be some pay-back capacity for equity or loan recovery or either payments of interest/ dividend. Therefore it is not advisable to set up JESSICA for projects that will not be able (eg. due to a severely negative business case or expected cash flow shortage) to recover any loans/equity or pay dividend/interest at all. Logically, these kind of projects should try to draw on traditional grants or, more importantly, they should try to seek combinations with other parts of a wider project that do generate revenues (ideally as a direct or indirect result of the implementation of the project at stake. This is of even more importance when considering that projects that indeed could be (or even: should be) supported by JESSICA actually are expected to consist of both revenue generating aspects (recovery, transformation and re-use of land and buildings, development of social enterprises, but also commercial and retail development) as well as non-revenue generating
aspects (basic urban infrastructure, urban utility networks, urban transport and traffic management schemes, etc). So there is surely the need for an integrated project investment scheme where profits and losses can be offset.

Agreements on use of JESSICA should be well documented, but don’t overdo it….KISS!
As well within the European institutions as between public and private sector partners in the Netherlands, there is a habit of producing lengthy documents on contractual agreements according joint investments, risks, exit-strategies, administrative procedures, etc etc.. The additional introduction of JESSICA might inflicts even more administrative, contractual or legal bureaucracy. However, in order for JESSICA to be of truly added value, this should all be kept as simple as possible. The motto should be ‘KISS’: keep it simple stupid…

Be clear on how a UDF or HF could look like and at what level they should be installed: not too low geographical level, otherwise the deal flow will be too small
HF’s or UDF’s need to be installed. The terms of conditions for contributions from operational programmes to HF/UDF need to be set out in a funding agreement (between MA and HF) or operational agreement (between HF and UDF), concluded between the HF/UDF and the Managing Authority. The minimum context of the funding agreement is foreseen by the JESSICA legal provisions (as given in chapter 3). For the Netherlands, both the forming of a HF or either the making of direct UDF’s without a HF, could be possible. This could actually be either at national level (HF at national level) or regional level (4 HF’s at regional level) and local level (UDF’s under HF at national or regional level or either directly appointed). A UDF at the local level could either be organised at city-regional level or city-level. In order to ensure a good deal flow it is not advised to organise either a HF or a UDF at a too low level. A HF should probably be at MA-level (Regions) and a UDF probably at least at city level (for the main cities), maybe with one or two exceptions at district level but only for major projects within the biggest cities and possibly where a UDF can be easily incorporated within a larger existing PPP organisation.

Attract other financial institutions, preferably also from private sector, to participate in HF/UDF
Potential power can be found in the incorporation of public and private investment and lending capacity through a PPP set up of a HF or a UDF. Mainstreaming and coordinating deal flows within a region and being able to offset several risks but also opportunities against another enhances the flexibility of the investment flow at both regional and national level. Individual problems both at individual partner level as well as at individual project level might be more easily overcome.

Correctly implement a HF and UDF: projects shouldn’t have to deal with the administrative burden
Logically, there needs to be a clear understanding about the main issues to be dealt with such as fund management and operations, legal structures (eg. a limited liability partnership), partners, mandates, shares, decision systems, board control, service level agreements, exit and dispute resolutions, etc. These issues should not be dealt with at a too low level to make sure for any efficiency and effectiveness and of course lessons learnt should be spread widely within the JESSICA-community.

With setting up a Holding Fund or UDF present knowledge (eg. with the EIB) of experiences within other Member States can be used to implement JESSICA in the Netherlands.

Don’t worry about the presence of an integrated urban development plan
In the Netherlands, integrated urban development plans are widely known to be an important planning document. Many if not all urban development projects will comply with this demand for implementation of JESSICA, at either urban municipal level, or either area or district level.
9 Functioning of HF and UDF’s

This chapter will give a global overview of what a Holding Fund and/or an Urban Development Fund should do. The first and second paragraph provide different reasons why you should or could establish a UDF or HF. We will then focus on the different issues one will encounter when setting up a UDF or HF. Finally we will give an overview of some reasons why a HF could be set up, to give a clear understanding when a HF could be of added value.

9.1 What should a HF do?

Set up investment policy and business plan including criteria and conditions
The management of a holding fund should prepare its own investment policy for the JESSICA Holding Fund, including criteria for the selection of appropriate UDF investments.

Cash management
A Holding Fund should define the winding-up provisions of the JESSICA Holding Fund, including the re-utilisation of resources returned form investments in UDF’s. A HF must be able to manage these funds.

Marketing
A specific task of a HF is organising and presenting at seminars and conferences, as well as the provision of training to intermediaries and other partners on a recurrent basis, to help further develop JESSICA and urban development in the Netherlands. In collaboration with the MA the HF should start marketing campaigns of the JESSICA initiative among financial investors and sponsors of potential UDF’s.

Calling for expressions of interest, negotiation on contributions and criteria and conclude in contracts
The HF will be launching calls for expression of interest addressed to UDF promoters. The appraisal and selection of UDF’s should be in accordance with the guidelines that are agreed upon in the Funding agreement of the HF. A HF can assist UDF’s with the identification and appraisal of integrated and sustainable urban development plans. Furthermore, a HF can negotiate and establish contractual arrangements, including appropriate exit provisions, between the JESSICA Holding Fund and the UDF’s.

Monitoring and reporting to MA’s (and other contributors)
A HF will have to monitor and report regularly about the performance of investments in UDF’s. A HF should establish appropriate audit policies and procedures with the MA and other relevant authorities at a national and EU level.

Assistance to UDF’s on issues like eligibility, state aid etc
A HF can assist with the interpretation of regulations, in particular relating to eligibility of urban project expenditures, integrated plans for sustainable urban developments, identification of leverage opportunities and state aid.

Administrative tasks
A HF can take over the majority of administrative work related with UDF establishment and project monitoring from the Managing Authority.
9.2 What should a UDF do?

According to the Council of Europe Development Bank and the European Investment Bank, establishment of Urban Development Funds is aimed to:

- Create stronger incentives for successful urban regeneration implementation by a coalition of private, public sector players and structural funds through a professional fund management;
- Utilise financial and managerial expertise to invest in many different elements of a regeneration process, some non-profitable and some more profitable than others;
- Provide bridge financing: investments needed upfront are usually high while project benefits (either internal or for society at large) tend to develop only over time;
- Target the specific area where private sector does not invest and public sector grants are not extended.

**Identify suitable urban development projects**

A UDF should identify possible urban development projects within the eligibility criteria. It is in the interest of a UDF to invest in several projects (or several parts of one overarching area development). Revenues can be re-invested within the same urban area which will raise the feasibility of the total development of that urban area.

**Allocate contributions from the UDF to urban development projects**

The UDF is responsible for the allocation and management of the contributions to different projects. It is also responsible for the reinvestment of collected revenues in other projects.

**Monitor and report on progress to a possible HF**

A UDF has to report the overall progress to a (possible) HF. In absence of a HF progress of projects is reported to the relevant authority (logically the Managing Authority).

**Prepare regular performance accounts**

Prepare regular accounts on the performance of the UDF for submission to the HF and other contributors to the UDF. A UDF has to justify its actions. By preparing regular accounts on the performance, stakeholders can (annually) approve the actions of a UDF.

**Collect remuneration**

The UDF is a self-supporting vehicle. A UDF has to collect remuneration on the UDF’s contributions and distribute returns to the contributors to the UDF. The collection is needed to be able to pay dividend to contributors. At the same time the UDF will have to collect remuneration to pay for itself (management fee). The principles for determining the level and the conditions of payment of remuneration for management should be determined in the funding agreement with the HF or Managing Authority.

**To identify suitable projects for the second round of investing**

Suitable projects need to be identified not only for the first round of investing, but also for the second round and possible later rounds. The eligibility criteria for reinvestments are different than those for the first round. Special attention is needed here in order to gain the most potential and revenues out of the invested sum.
9.3 Issues in setting up a UDF

**Sufficient and relevant deal flow capabilities**
It is important that a UDF has sufficient deal flow capabilities. A UDF with a low investment capacity could still be important at a local scale and for a specific project, but in general also a UDF should have some substantial volume in order to be able to allocate funds to different projects. This will lead to a more substantial deal flow which will allow funds to be flexible, to attract other private or public investors to create leverage and to be able to spread risks. The minimal size of any UDF will probably be around 5 – 7 million, but relates of course to this round of available EFRO funds. The higher the deal flow capabilities and available money, the larger the revolving investments from ERDF-means within the UDF target area at the longer term will be.

**Geographical scale**
The geographical scale of a UDF should not be too small, the catchment area must be relatively large (e.g. regional level, major cities or major area developments like Belvedere, Stadshavens et cetera). A UDF should have the opportunity to invest in different projects at the same time (risk spreading).

On the other hand, the scale of a UDF should not be too big either as there might be a risk of too many projects or project promoters wanting to use JESSICA, resulting in too much spread of investments leaving all projects with insufficient support investments. Urban development becomes more and more complex and more expensive. Therefore it might very well be the case that equity, loans or guarantees needed by individual projects are of a substantial volume.

**Private sector has to be consulted for partnership**
Because the private sector (most likely) will play an important role within UDF’s, they will have to be consulted in advance. As a possible important partner they have to be able to bring their capacities and knowledge to the table, in order to further improve the efficiency and effectiveness of a UDF. Within the eventual UDF set-up, private sector partners (banks, institutional investors) need to be reassured on their criteria on investment (preferential shares, dividend levels, role in investment committee, investment criteria). They will probably participate on different conditions. Each time a UDF is established, the different conditions will have to be negotiated and be concluded in contracts. It will be possible that different investors will have different shares (like A and B shares), with more and less rights and responsibilities.

**Possible link-in with funding from EIB, CEB other IFI’s, including other public funds**
Link-in with funding from international financial institutions could be investigated. Also, the possible matching with other public funds needs to be sorted out. Logically a project can get a loan through JESSICA, leveraged by additional loans by EIB as well as receive additional loans (or grants) from a local government.

**Selection of fund-managers**
Setting up and managing a UDF has not been done before (in the Netherlands). It requires a specific financial approach, and most likely current Management Authorities will find it difficult to fulfill this role. The expertise, however, can be found within the EIB, BNG or government treasury departments. In addition, there is also much expertise with fund management available throughout the private sector.

**Selection process of investment projects**
A selection process from potential project to investment project will have to be set up. When does a potential project evolve into a project that a UDF will invest in?

Clear agreements on criteria / allocation, and management responsibilities
Specific management responsibilities have to be developed. Also the governing structure of UDF and HF should be defined.

9.4 Why a HF?

Holding Funds (HF) are defined in Council Regulation (EC) No 1083/2006 (Art. 44) as funds set up to invest in urban development funds. As results from Council Regulation (EC) No 1083/2006 (Art. 44) Member States may and not must organise Holding Funds. However, it would be worthwhile to consider potential benefits from a Holding Fund. These include:

- Transfer of a significant part of administration work from the Managing Authority;
- Consultancy with regard to selection of appropriate Urban Development Funds;
- Significant progress in absorption of structural funds (due to the fact that, under Council Regulation (EC) No 1083/2006 Art. 78(6), a contribution to HF’s shall be eligible expenditure);
- Ability to earn higher financial income from investing Fund resources;

Several other aspects need to be discussed:

Serving overarching interests
To clearly separate JESSICA from other existing policy discussions and instruments. By creating a separate HF JESSICA could be put at some distance from everyday political discussions.

Combination of resources from several MA’s
Holding Funds allow for JESSICA funds to be combined between MA’s (when each MA does not have sufficient money in itself to set up a HF). However, this might not be preferred by the MA’s.

Minimization of administrative procedures for MA’s itself (outsourcing).
A HF will implement additional tasks leading to more efficient and effective implementation of JESSICA activities, like:

- providing (to a sensible extent) help in preparing documentation necessary for the MA to follow the EU regulations on state aid and/or information on major projects;
- providing (to a sensible extent) support in interpretation of EU regulations concerning financial engineering and in particular the eligibility of costs;
- ensuring training for representatives and other key partners, in order to support further development of the JESSICA initiative and the public-private partnership in the urban sector.

Flexibility
Funds can be spent on different UDF’s and a wider range of projects, so risks are wider spread whilst the UDF’s can also more easily adapt to local changing markets (ie. increasing or decreasing the investment sums). A HF could easily transfer funds from one UDF to another. Expectedly, many (local political) issues will arise about this. However, a HF could and should invest in those UDF’s where loans, guarantees or equity will have the most added value.

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4 When a HF is established within the EIB this allows for simplification and acceleration of procedures because no tender procedure is required.
To serve individual UDF’s with expertise and fund management

It allows Managing Authorities to delegate some of the tasks required in implementing JESSICA to appropriate professionals. These tasks include establishing specific criteria for making investments in UDF’s, appraising and recommending appropriate UDF’s to invest in, negotiating contractual arrangements with the UDF partners as well as monitoring and reporting on the performance of UDF’s.

Deal-flow for major private partners.

Major private partners could only be triggered if enough deal-flow is guaranteed. For the biggest institutional investors or financial institutions a UDF on city or regional level could be too small. They are looking for long lasting investments with a safe but sufficient return on investment. Here, a wider HF with a more substantial deal-flow and better risk-spread could be of interest.

Providing a head start

Member States with a less developed urban investment sector can still take advantage of JESSICA funding immediately, while further UDF’s and potential investment projects are being established and implemented along the way.

9.5 Conclusion

The several aspects and steps to be taken during the discussion on when and how to establish a HF and UDF’s is summarized in the figure below.

Figure 9.1 Decision tree on when and how to set up HF/UDF

* Depends on relevant scale: national government, regional level, province, municipality.
10 Action plan

10.1 Content

Run a Pilot. The proof of the pudding is in the eating
To give the public and private sector the confidence of the benefits, a ‘pilot-UDF’ is advisable.

The essence of the pilot would be to establish a UDF. We would suggest not to establish a national UDF (considering the four OP’s), but to focus on a UDF within one of the four OP’s. We expect that a possible UDF could be easiest established in West. The reasoning behind this is the simple fact that there is a higher potential availability of funds.

This could look like the following:

What are the criteria?
It should be crystal clear what the eligibility criteria are. Which projects may expect funds from JESSICA and which project cannot.
- Integrated urban development plan: Which kind of plans are appropriate?
- State of play: what is the maturity of the project (expected investment period)?
- Volume: Is there a minimum or maximum investment volume
- Revenue potential: When do we speak of a revenue potential. Is a set of rules available?
- Etc (these questions need to be answered when deciding on a pilot UDF).

**Which projects are appropriate?**

Does the list below cover all sorts of projects. Or should the list be longer, or can the list develop over time?

- basic urban infrastructure, including street furniture and pedestrianisation;
- recovery, transformation and re-use of land and buildings;
- commercial and retail development;
- improvement to urban utility networks;
- urban transport and traffic management schemes;
- development of social enterprises; and
- upgrading of social and affordable housing.

**Who are the stakeholders, which risks are there for them?**

Stakeholders are government agencies, private developers, housing corporations. It is obvious that for any of these stakeholders JESSICA is beneficial. The main problem is that almost every stakeholder has to be convinced that JESSICA is of true value.

Risks involved are political risks, financial economic risks, market risks an operational risks. Furthermore there will always be the risk of State Aid. All the risks should be analysed and control measures should be set up.

10.2 Promotion

**Promote JESSICA in every way possible.**

It will be important to promote the Jessica framework in the present Dutch public developing system. This means that it has to sell itself to the public sector, by active promotion.

To give the public sector the confidence of the benefits for the cities, a ‘pilot-UDF’ is advisable. A sound monitoring and visibility towards future local public actors and private actors is necessary.

Start up workshops with municipalities, housing corporations, developers, investors etc. The interviews with stakeholders have indicated a certain interest for the approach but some cold feet still exist. We suggest that further communication and promotion –possibly to be organised by a procesmanager (eg. at national level, or regional levels) that will be suggested later on- could focus on the following aspects:

**Contacts with regional administrations**

This should focus on the eventual set-up of a UDF (without ERDF-means) with a land/asset portfolio held by a regional administration. This could figure as a pilot to show the potential of the approach.

**Contacts with cities**

To further explore the potential for a UDF on city level. If a major city like Rotterdam could be further enthused for the approach, this could create an opening for using ERDF-means in the current period. Also other cities could be further informed. With these cities the focus should lie on the knowledge transfer that the approach could bring.

**Information sessions to private sector:**
It is important to gain further approach of the private sector and to inform them in an early stage, in order to get early feedback but also to prepare them on the approach. This will stimulate creativity and pro-activity.

*Write columns and articles in appropriate magazines (VNG, Building Business, Binnenlands Bestuur et cetera)*

Make sure that people talk about JESSICA. The awareness of JESSICA will be significantly improved when columns are written about innovative financial constructions. To enhance awareness the columns have to be written in Dutch.

One way of promoting JESSICA could be to set up a road show “JESSICA / UDF”. It would give stakeholders a lot of information and a chance to talk and discuss the opportunities with others.

Finally one should not forget to pay attention to the exchange of experiences from practices elsewhere, e.g. via EUKN, URBACT programmes et cetera. A lot of practical experience is already available, it just needs to be highlighted again and again.

### 10.3 Process

*Investigate the consequences of JESSICA in relation to state aid*

A lot has been written about State Aid. A pilot project would give some definite answers. It should be stressed that not each support provided under JESSICA will automatically constitute unlawful State aid. For when the bodies will act on market terms and the funds under JESSICA will be provided on market terms, the risk of unlawful State aid should not come to exist. Also if market failure can be demonstrated, there can not be any question of state aid.

The question of State Aid is currently being looked at by the EC.

*Make a roadmap setting up Jessica/UDF for MA and applicants (municipalities, private sector, institutional investors)*

The road map will provide clear steps for both the MA and for applicants. It will give both parties a tool that will help them in the process.

Review the possible options financial rates/criteria for MAs as HF/UDF organisers.

### 10.4 Organisation

*What are tasks and responsibilities of the MA, and possibly BNG etc. How are the HF and UDF managed (governance)*

An important step will be the establishment of different UDF’s or HF’s. How are these organisations governed? What are their responsibilities? Who will be in charge?

We foresee four possible organisations:
- The first possibility would consist of a National HF, with four UDF’s (1 UDF within each ‘region’).
- A second possibility would be four HF’s (each ‘region’ has his own HF). When called for UDF’s will be established, at local or regional levels within the ‘region’.
- A third possibility would be one UDF in each 'region'. Without a HF (MA will need to select a UDF itself).
- Finally a fourth possibility would be no HF’s and only UDF’s where called for (at local and/or regional levels). However this means that a MA cannot rely on a HF for selection and procurement issues.

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

The terms of conditions for contributions from operational programmes to HF/UDF will be set out in a funding agreement, concluded between the HF/UDF and the Managing Authority. The minimum context of the funding agreement is foreseen by the JESSICA legal provisions. The functioning of UDF/HF’s has been extensively elaborated on in the preceding chapter.

### 10.5 Timetable

- **communication between partners**
- **elaborate on content (like finalisation of state support issues)**
- Preparations; organisation and set up HF **2 months**
- Implementation activities for implementing a UDF **3 months**
- selecting a UDF **3 months**
- run pilot **1 year**
- set up of implementation plan **start 2nd or 3rd quarter 2011**
- (hosting of a roadshow **Q2 t/m Q4 2011**

Considering the tasks to be done, we would suggest that someone should be appointed as procesmanager. This procesmanager would be responsible for the preparation and organisation of the implementation of JESSICA. The tasks and action that have to be undertaken are listed above. The time table gives a rough indication of the tasks. A procesmanager can be appointed at national level – who then coordinates activities throughout the country- or either at regional (or even local) levels, depending on the wishes of the subsequent MA’s.
Annex I

ABBREVIATIONS ON JESSICA FRAMEWORK

CEB        Council of Europe Development Bank
EC         European Commission
EIB        European Investment Bank
ERDF       European Regional Development Fund
EU         European Union
Evaluation Study  The analysis covering elements as described in these Terms of Reference
FES                              Fonds Economische Structuurversterking (Fund Economic Investments)
HF                                Holding fund as described in the Community regulations regarding JESSICA
IFIs        International Financial Institutions
JESSICA     Joint European Support for Sustainable Investment in City Areas
JESSICA Fund UDF and/or HF
JESSICA Projects  Projects or programmes, which are part of Integrated Plans for Sustainable
Urban Development and meet other eligibility criteria enabling them to be potentially funded by UDF’s, as further described in the Community regulations regarding JESSICA
MA         Managing Authority, as defined in the Community regulations regarding Structural funds
Ministry of VROM  (former) Ministry of Housing and Planning
Ministry of V&W   Ministry of Infrastructure and Works
Ministry of LNV   Ministry of Agriculture and Food quality
Ministry of EZ    Ministry of Economic Affairs
PPP        Public and private partnership
PPC        Public Private Cooperation
UDF        Urban development fund as described in the Community regulations regarding JESSICA
Urban Regeneration A range of actions aimed at sustainable renewal, rehabilitation, redevelopment and/or development of city areas
V&W BDU     ‘Gebundelde doeluitkering V&W’ (Investment programme in Infrastructure for Provinces and municipalities)
V&W IF      Infrastructuurfonds V&W (‘Investment fund for Infrastructure)