**TABLE OF CONTENTS**

EXECUTIVE SUMMARY .......................................................................................... 4

1. INTRODUCTION .................................................................................................. 9
   1.1 Preamble .............................................................................................................. 9
   1.2 Content of the Study .......................................................................................... 10
   1.3 Urban regeneration as a driver of sustainable economic growth ..................... 10
   1.4 Market failure in the delivery of urban regeneration programmes ................... 12
   1.5 The urban dimension of EU policy .................................................................... 13
   1.6 JESSICA and accelerated investment in integrated urban development .......... 15
   1.7 Role of Managing Authorities and Urban Development Funds ....................... 16
   1.8 Participation of EIB and CEB in the development of the initiative ................... 17

2. BACKGROUND ...................................................................................................... 18
   2.1 The Market ........................................................................................................ 18
   2.2 Context and propensity to use the financial engineering instruments ............. 19
   2.3 Legislative provisions in EC regulations pertinent to JESSICA........................... 20
   2.4 Integrated urban development programmes and eligibility criteria .................. 22
   2.5 ERDF housing eligibility rules ......................................................................... 24
   2.6 State aid and public procurement issues ......................................................... 25
   2.7 Different operational contexts inform the Study .............................................. 28

3. JESSICA IN CONCEPT ...................................................................................... 30
   3.1 The JESSICA Schema ...................................................................................... 30
   3.2 Institutional models .......................................................................................... 31
   3.3 Operational parameters ................................................................................... 33
   3.4 Potential forms of investment .......................................................................... 33

4. CASE STUDIES .................................................................................................... 35
   4.1 Preamble .......................................................................................................... 35
   4.2 United Kingdom ............................................................................................... 38
   4.3 Holland .............................................................................................................. 43
   4.4 Italy .................................................................................................................... 49
   4.5 Spain .................................................................................................................. 54
   4.6 Hungary ............................................................................................................ 58
   4.7 Poland ............................................................................................................... 63

5. JESSICA IN PRACTICE ..................................................................................... 69
   5.1 Practical ramifications ....................................................................................... 69
   5.2 Level of return .................................................................................................. 69
   5.3 Relationship of JESSICA funding with other contributions ............................ 70
   5.4 Returns available to fund managers ................................................................. 71
   5.5 Forms of financial flow .................................................................................... 71
   5.6 Timing of financial flow ................................................................................... 72
   5.7 Recovery and recycling of funding ................................................................... 72
   5.8 Eligibility .......................................................................................................... 73
   5.9 Procurement .................................................................................................... 73
   5.10 Supervision and auditing ............................................................................... 74
This document has been produced with the financial assistance of the European Union.

The views expressed herein can in no way be taken to reflect the official opinion of the European Commission and the European Investment Bank.
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEB</td>
<td>Council of Europe Development Bank</td>
</tr>
<tr>
<td>CF</td>
<td>Cohesion Fund</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>ECF</td>
<td>English Cities Fund</td>
</tr>
<tr>
<td>EIB</td>
<td>European Investment Bank</td>
</tr>
<tr>
<td>EIF</td>
<td>European Investment Fund</td>
</tr>
<tr>
<td>ERDF</td>
<td>European Regional Development Fund</td>
</tr>
<tr>
<td>ESF</td>
<td>European Social Fund</td>
</tr>
<tr>
<td>FAS</td>
<td>Fondo Aree Sottoutilizzate</td>
</tr>
<tr>
<td>HF</td>
<td>Holding Fund</td>
</tr>
<tr>
<td>IUP</td>
<td>Integrated Urban Plans</td>
</tr>
<tr>
<td>JEREMIE</td>
<td>Joint European Resources for Micro to Medium Enterprises</td>
</tr>
<tr>
<td>JESSICA</td>
<td>Joint European Support for Sustainable Development in City Areas</td>
</tr>
<tr>
<td>MA</td>
<td>Managing Authorities</td>
</tr>
<tr>
<td>MS</td>
<td>Member States</td>
</tr>
<tr>
<td>NSRF</td>
<td>National Strategic Reference Framework</td>
</tr>
<tr>
<td>OP</td>
<td>Operational Programme(s)</td>
</tr>
<tr>
<td>PPP</td>
<td>Public-Private Partnership</td>
</tr>
<tr>
<td>SF</td>
<td>Structural Funds</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Enterprises</td>
</tr>
<tr>
<td>STU</td>
<td>Società di Trasformazione Urbana</td>
</tr>
<tr>
<td>UDF</td>
<td>Urban Development Fund</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

1. The JESSICA Initiative. Joint European Support for Sustainable Investment in City Areas (JESSICA) is a new policy initiative of the European Commission (EC), supported by the European Investment Bank (EIB)\(^1\), designed to help the authorities in the Member States (MS) of the European Union (EU) to exploit financial engineering mechanisms to support investment in sustainable urban development in the context of Cohesion Policy. This report provides the main findings of a study (the “Study”) undertaken by the EIB between September and December 2006 on behalf of the Commission (DG REGIO), to review the applicability and evaluate the potential of the JESSICA initiative. The study reviews urban renewal and development actions, indicating the key administrative processes, and discusses the existing financial vehicles for urban investment; analyses potential market failures and how financial engineering actions and products could address perceived deficiencies; and establishes the interest in using Urban Development Funds (UDFs) to channel such actions.

2. Urban regeneration as a driver of sustainable economic growth. The city is a critical actor in the social and economic life of the EU, with approximately 80% of its population living and working in urban areas. The long-term performance of cities is linked to their ability to regenerate themselves through a proper balance between planning, centred on urban renewal, and flexibility in responding to market forces. Cities are the engines of innovation and economic growth, but they are also frequently the locations where serious problems occur – inner-city decline, unemployment, physical decay, social exclusion etc.. The ability to adjust the urban structure to changing economic conditions, whilst improving the quality of life of citizens, is the essence of successful urban change. These strategies necessarily require multi-sector investment programmes that complement the provision of infrastructure and public amenities with the necessary social expenditure, i.e. an integrated approach, and the mobilisation of a broad range of partners with different financing capabilities and management skills.

3. The assessment of the European market potential for JESSICA supported investment is a complex exercise. Amounts that the national authorities of the EU-27 could earmark from SF allocations for JESSICA supported investment over the 2007-2013 period will be a function of a number of factors, such as the needs and plans for urban investment, the maturity of the market for PPPs, policy priorities, the project preparation and implementation capacity and financial sophistication of the public and private sectors. Applying a set of relatively high-level assumptions to these factors, and on the basis of an analysis of the importance afforded to the urban agenda in those draft National Strategic Reference Frameworks (NSRFs) that were available as of December 2006, urban renewal and development could potentially attract an aggregate allocation of circa €90bn. The share of this urban investment pool taken by JESSICA would depend on:

---

\(^1\) The Council of Europe Development Bank (CEB) has also agreed to participate, following a tri-partite Memorandum of Understanding between the EC, EIB and CEB, signed in May, 2006, which agreed to more cooperative working between the respective institutions.
a. the capacity to drive through the legislative and financial framework and incentives to make wider use of PPPs for urban investment;
b. a change in culture away from pure grant-giving in the use of SF;
c. urban investment orientations being more aligned to ESF and Competitive economy agendas than urban infrastructure; and
d. the decision not to funnel through JESSICA the bulk of major urban infrastructure programmes that dominate many NSRFs and national priorities (particularly in the New Member States).

A summary of the methodology developed for such calculation, together with the disaggregated results by country, is presented in Appendix C.

4. **Role of Managing Authorities and Urban Development Funds.** Under JESSICA, Managing Authorities (MA) can use some of their Structural Fund (SF) allocations to invest in Urban Development Funds (UDFs) to accelerate investment in urban areas. UDFS would then draw down the investment from ERDF contributions, other national contributions and possibly private capital investors (both equity and debt), to invest in selected PPPs and other eligible urban projects, providing them with loans, equity or guarantees, or other non-grant finance. UDFS could act purely as a finance conduit, or as either developers or joint venture partners providing complementary finance to support urban development by third parties, sharing risks and rewards with their partners. UDFS can take different legal structures and administrative forms, and need not be geographically specific. Their common features are a market-driven approach, as they are expected to recover their investment, and the fact that they must invest in projects forming part of well-defined integrated urban renewal and development plans (IUPs).

5. The enabling framework for JESSICA is provided by Regulations for the 2007-2013 programming period, which allow MS to use some of their SF allocations to support investment in integrated urban renewal and regeneration through financial engineering instruments. The policy background and the enabling framework, including the most relevant legislative provisions, are presented in Section 2 of the Study and the text of the relevant Articles is set out in Appendix A of the Study.
6. The practical operation of JESSICA is illustrated in Figure 1, which outlines the general structure and main funding flows involved. Member States (MS) are notified of their SF entitlements and allocate these to Operational Programmes (OP), whose Managing Authorities (MAs) are responsible for deciding on the use of JESSICA and on whether a Holding Fund (HF) should be employed.

a. In the event that a HF is used, the MAs allocate funding to the HF – this may be a separately identifiable account within an existing entity or an entirely separate legal entity. The MA will conclude a contract with the HF to define its governance and rules of operation. The management of the HF will include a variety of tasks such as the preparation of the investment policy and business plan, cash management, marketing of the JESSICA initiative, calling for expressions of interest from parties intending to become UDFs, selection, negotiation and contracting with UDFs, monitoring and reporting to MAs and other contributors to the HF and assisting UDFs on issues of eligibility, state aid, and identification of leverage opportunities. Where HF are not used, the relevant elements of the HF role will need to be undertaken by the MA itself.

b. The responsibility of the UDF fund managers, within the contractual agreement with the HF (or with the MA, where HF are not used), will be to identify suitable urban development projects, allocate contributions from the UDF to these projects, monitor and report on their progress to the HF (to the MA, where HF are not used); collect remuneration on the UDF’s investment and distribute returns to the contributors to the UDF; and prepare regular accounts on the performance of the UDF for submission to the HF and other contributors to the UDF.
7. The practical operation of HF and UDF can vary considerably, but it is useful to think in terms of two basic reference models, the “equity” and “non-equity” model.

   a. The “equity model” is 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 the role envisaged for UDFs. These entities receive equity from investors and aim to provide attractive equity returns commensurate with their commitment to urban areas in need of redevelopment/regeneration. The equity model is likely to attract private sector involvement and stimulate PPPs, as it will encompass an equity element in the urban development projects it supports. This may be a key advantage for MAs seeking leverage of public funding, or aiming to increase commercial discipline in public investment, and could be easily replicated in those countries with flourishing private equity and fund management markets.

   b. In a number of MS, however, it emerged that an alternative model for JESSICA (the “non-equity” model) would allow MAs to make repayable contributions to urban development projects, without the requirement for a series of equity investments. In this model, a MA would simply establish a cash fund, which a UDF would draw upon under agreed contractual obligations, including the payment of interest or other forms of investor remuneration and the repayment of the drawn contribution. The non-equity model is more closely aligned to grant funding, even if the form may be legally a loan fund, and closer to how public sector sponsors currently organise SF and other grant provisions – it would therefore be easier to establish in areas without equity and fund management markets. It could attract MAs that want to keep control over the provision of JESSICA funding along with their urban planning duties, rather than sourcing third-parties or PPP finance. It might avoid the complexity of a Holding Fund structure where MAs deal directly with standard public sector recipients of structural fund grant. And where private sector contributors are not involved, it would be more likely to avoid certain state aid issues.

In summary, the non-equity model is likely to be easier to implement in the short term for public sector sponsors, but in the longer term it offers less scope than the equity model of achieving the key JESSICA objectives of encouraging PPPs and private sector discipline in urban development.

8. The Study has been informed by a representative sample of case studies selected to cover urban investment operations initiated and administered at different levels (national, regional and city-based), and in different environments and situations (country, size, maturity of EU membership, etc.). The work was undertaken by consultants and comprised the UK, Hungary, Holland, Italy, Poland and Spain. The case studies confirmed the expectation that the market for urban renewal/regeneration is likely to be very different from one MS to another, so that direct replication of a common set of ideas and concepts across the EU will not be possible. Key issues identified were:

   a. Need for flexibility of approach, with respect to the definition of urban regeneration, the ability to complement existing and planned interventions in the MS, the appropriate governmental level for and priority fields of
intervention and linkages to other national and regional policies. Significant variations in regeneration priorities will exist among and within different MS and JESSICA will be required to tackle a diverse range of issues that will differ from location to location. In any event, it will be important that the intervention constitutes part of an holistic package of regeneration activities.

b. Consistency of approach and clarity of purpose will be of paramount importance. The need to have strategic development plans was stressed in all the case studies, but there was much less consensus on the type and form of coverage for integrated development plans and what legal ‘status’ these should have. The development of JESSICA will need to be framed to ensure the market understands what JESSICA wants to achieve, how to access JESSICA funding, and the interaction between HFIs/UDFs and individual projects/programmes on the ground.

c. JESSICA should complement other public delivery approaches and programmes, as well as private sector investment appropriate to the level of market appetite and sophistication in each MS, particularly to support up front enabling investment in relation to a site/project. Case studies emphasise the need to consider how JESSICA might assist in resolving this and related issues, especially given that JESSICA is likely to be required to invest at the higher risk end of the spectrum for projects.

d. Need to tailor the type and scale of financial support – case studies suggested that it may be necessary to offer a choice between grant aid, equity investment and/or the development of a portfolio of investment approaches, so that the risk-return balance and investment scale required to achieve the desired regeneration impact are reached. Less developed markets may find it more difficult to adopt innovative funding products, and may require more traditional intervention support, at least in the initial stages.

e. Management expertise - sufficient and appropriate professional expertise should be made available to support and manage the process of investment by UDFs to both protect the public investment and maximise potential returns and benefits.

f. Operational streamlining - the application and funding processes should be made simple to understand and the funding straightforward to access, use and manage on an ongoing basis.

9. A number of practical implications have emerged, stemming from the JESSICA model illustrated above (Section 3 of the Study) and in the light of the findings from the case studies (Section 4 of the Study). These are addressed in section 5 and concern:

a. Level of return
b. Relationship of JESSICA funding with other contributions
c. Remuneration of fund managers
d. Forms and timing of financial flows
e. Recovery and recycling of funding
f. Eligibility and procurement issues
g. Supervision and auditing issues

10. Further work will be needed to study:

a. contractual arrangements, to clarify issues such as the legal status of funding once in the JESSICA structure, rights of MAs to interest on cash holdings in a HF or UDF, rights of MAs to returns generated by HF and UDFs vis à vis
rights of other contributors, legal status of funds beyond 2013, and winding up procedures for JESSICA funds, with recovery and recycling of funding; 
b. the development of suitable performance indicators, as required by MAs and other interested parties to allow monitoring of the success of JESSICA funding and to learn from best practice…indicators will need to cover financial performance and policy outcomes; and 
c. criteria and procedures for the creation of a system of UDFs…the JESSICA regulatory framework does not prescribe the form and legal structure of UDFs and these could consist of a wide range of entities. Given the existing interest in using JESSICA funding from a number of MS, it is likely that UDFs will be established (or existing entities officially labelled as UDFs) through tailored discussions with MS and MAs.

11. In 2007 and 2008, the EIB will continue its cooperation with the Commission within the framework of the preparation and launch of the JESSICA initiative. More specifically, the Terms of Reference for EIB services to be delivered in this next phase are expected to focus on:

a. further exploring the potential for JESSICA investment funds, working closely with individual MS and desk officers at the Commission; 
b. widening the research into the conditions for fund-based investment in selected MS, regions and cities, including more in-depth analysis of UDFs or similar structures, where they already exist; 
c. setting out exemplar structures and investment management contracts so as to establish the means of investing Structural Funds in urban development projects through UDFs and, where appropriate, through HF$s; 
d. recommending how the JESSICA initiative should best be taken forward in the MS’ varying institutional environments; and 
e. agreeing with selected MAs the required next steps for successfully implementing JESSICA investment using SF allocations.

12. The results of the Study suggest that it would be useful to target for early implementation a limited number of “pilot” JESSICA transactions. While the nature, focus and success of JESSICA investments will be heavily influenced by the market circumstances of individual MS, the proposed pilots would provide insight and practical evidence of market delivery, which could accelerate JESSICA’s development across the EU.
1. INTRODUCTION

1.1 Preamble

Joint European Support for Sustainable Investment in City Areas (JESSICA) is a new policy initiative of the European Commission (EC), supported by the European Investment Bank (EIB), designed to help the authorities in the Member States (MS) of the European Union (EU) to exploit financial engineering mechanisms to support investment in sustainable urban development in the context of Cohesion Policy. This report provides the main findings of a study undertaken on behalf of the Commission (DG REGIO) by the EIB, to review the applicability and evaluate the potential of the JESSICA initiative. The study comprised work by both the Bank’s JESSICA Task Force and a number of external consultants: to review prevailing urban renewal and development actions, indicating the key administrative competencies and processes; to identify the existing financial vehicles for urban investment; to analyse potential market failures and how financial engineering actions and products could address any perceived deficiencies; and to establish the interest in using Urban Development Funds (UDFs) to channel such actions.

The report is based on research undertaken by the Task Force between the 1st July and 31st December 2006, and is underpinned by case studies in a small but representative sample of EU Member States that were commissioned by the project team and carried out by selected consultants on our behalf. The consultants’ studies include evaluations of UDFs administered either nationally, regionally or city-based in the respective constituencies and, where there are no UDFs, simulations of how these might operate and/or best be established. It should be noted that the consultancy studies are quoted on a non-attributable basis throughout this report, therefore reflecting our interpretation of the comments made. The report also incorporates references to and/or quotes from the pertinent regulations, circulars, proposals and analyses produced and disseminated by the Commission, and relevant to the necessary description of the evolution, development and future implementation of JESSICA.

Building on a market driven approach that is essential for the success of UDFs, the Structural Funds dedicated to JESSICA are expected both to leverage substantial amounts of investment into areas in need of social cohesion and to speed up their transformation. The initiative is also expected to contribute financial and managerial expertise from specialist institutions such as EIB, CEB and other IFIs, and to create stronger incentives for successful project implementation by beneficiaries, by combining grants with loans and other financial tools. Long-term sustainability will be reinforced through the revolving character of the ERDF (and ESF, where eligible) contribution to funds specialising in investment for urban development, creating a lasting legacy of the Structural Funds across the EU.

---

2 The Council of Europe Development Bank (CEB) has also agreed to participate, following a tri-partite Memorandum of Understanding between the EC, EIB and CEB, signed in May, 2006, which agreed to more cooperative working between the respective institutions.

3 The JESSICA Task Force was supported in the preparation of this report by an expert seconded from CEB.
1.2 Content of the Study

SECTION ONE (‘Introduction’) outlines the rationale for financial engineering and the role of investment funds, and how the JESSICA initiative has evolved. It also includes some details on the roles and relationships of key actors/players in the process, e.g. Managing Authorities, Urban Development Funds etc.

SECTION TWO (‘Background’) puts the JESSICA initiative in context by appraising the market for urban regeneration, reviewing the Commission’s regulations pertinent to JESSICA, and outlining key differences in the operational environments in which the initiative might be implemented, e.g. the need to distinguish between what is feasible and/or might be desirable in mature economies as compared with New Member States. In short, there is unlikely to be a one size fits all solution.

SECTION THREE (‘JESSICA in Concept’) outlines the regulatory framework that gives rise to the JESSICA concept, which can be translated into a schema outlining the operational possibilities for the initiative including equity investment funds, revolving loan funds, loan guarantees etc. These somewhat theoretical options, which also help to elaborate the respective roles of the public and private sectors, are then used to test the concept via the selected case studies.

SECTION FOUR (‘Case Studies’) reviews the case studies, summarising the main findings in each and assessing these against the list of key tasks and required outputs that were identified in the respective consultant’s Terms of Reference. It reviews key issues and lessons learned in the various constituencies, and highlights examples of best practice. Where appropriate, the review of the respective case studies includes a gap analysis.

SECTION FIVE (‘JESSICA in Practice’) reviews the structures and simulations of how JESSICA might be implemented in practice, given the key messages from the case studies. It includes an evaluation of generic operational constraints as well as those that are likely to be unique to particular operational environments. It proposes an implementation strategy and reviews the possible role of the EIB and other IFIs, including CEB, in the next phase of JESSICA development. Perhaps most importantly, it highlights the need for early demonstration projects, as exemplars of what is possible, with a view to persuading others to follow.

SECTION SIX (‘Outstanding Questions’) provides an inventory of some of the outstanding questions and issues that need to be addressed, and includes suggestions for further research.

1.3 Urban regeneration as a driver of sustainable economic growth

The city is a critical actor in the social and economic life of the European Union, with approximately 80% of the population of the EU living and working in urban areas. The long-term performance of cities is linked to their ability to regenerate themselves through a proper balance between planning, centred on urban renewal, and flexibility in responding to market forces.

Cities are the engines of innovation and economic growth, but they are also frequently the locations where serious problems – inner-city decline, unemployment, physical decay, social exclusion – occur. Even in wealthier cities, pockets of deprivation may threaten economic performance, cause environmental problems and challenge social cohesion.

Technology (mostly communication-related developments: the lift, the automobile, public transport, telecommunication) and demographic, social and economic pressures have deeply
transformed the structure of most European cities. One effect has been urban sprawl and social segmentation, with higher income residents increasingly settling in lightly populated suburbs or exclusive more centralised neighbourhoods, and low-income groups concentrated in decaying older areas or in neighbourhoods with very high demographic densities, often lacking services and public space. The resulting social imbalances, and the segregation of activities within the urban continuum, are frequently exacerbated by the migration to new suburban developments of commercial and business activities formerly located in the inner city.

Urban sprawl results in more traffic. Suburbs, especially those with very low population densities, are difficult and expensive to serve with public transport. As a consequence, the phenomenon of suburbanisation often induces a vicious circle of degradation of public transport services and increasing attractiveness of private car usage, leading to generalised congestion and environmental pollution, and further deterioration of some old central areas.

Urban decay is also a problem in many high-density areas built as recently as 30 to 40 years ago to respond to migration pressures. The poor quality of the buildings and the lack of proper maintenance, along with insufficient space to respond to growing demands (in particular for social infrastructure and green spaces) have severely degraded living conditions. Moreover, such neighbourhoods are often associated with abandoned industrial sites that constitute an environmental hazard. Recent unrest in several European cities reflect the dangers to community life of poor living conditions, and the negative impact that a lack of confidence in their environment can have on the expectations and behaviour of residents.

The phenomena of social exclusion and environmental decay, as well as the pattern of segregation within urban areas, take different forms and reach varying degrees of severity, depending on many factors, including physical, climatic and cultural circumstances. There is however a clear indication that good governance and the related quality of planning and project implementation are critical in controlling such phenomena, maintaining a balance between the pressures for development and the need to enhance the quality of life of citizens. It is also clear that only an integrated approach, simultaneously dealing with the interrelated issues of urban transport, environment, public services, economic activity and social structure can produce the type of urban environment, adapted to the particularities of city dwellers, that would provide for more sustainable urban communities.

In most European cities with inner areas suffering from dilapidation and decay, this approach has led to a strong emphasis on urban regeneration and renewal to improvement of areas where the most deprived citizens often live, with the transformation of poorly built housing estates and the recovery of abandoned industrial or obsolete sites, so-called brownfield sites, into new integrated and more sustainable communities. Urban regeneration can have major social cohesion impacts and represents the best option for making use of valuable and scarce land assets in the inner city. At the same time, such renewal may reduce the pressure for further occupation of surrounding agricultural land and other greenfield and natural areas, and contribute to a more balanced urban structure that is less environmentally demanding. So, both environmental and social considerations, with their corresponding economic implications, suggest urban solutions that give priority to integrated urban renewal and regeneration strategies for the accommodation of development pressures.

The ability to adjust the urban structure to changing economic conditions, whilst improving the quality of life of citizens, is the essence of successful urban change. And this is essentially obtained by implementing strategies that take into account the complexity of the urban setting when promoting balanced development based on the renewal of derelict areas and the provision of infrastructure and services, designed to enhance the quality of
urban life. These strategies necessarily require multi-sector investment programmes that complement the provision of infrastructure and public amenities with the necessary social expenditure, i.e. an integrated approach. Combining a multitude of economic, social and environmental measures, integrated urban development programmes often require the adoption of innovative policies and necessitate the mobilisation of a broad range of partners with different financing capabilities and management skills.

**Box 1: An example of integrated approach to community regeneration -- ‘Communities First’ programme, Wales**

**Communities First** is a Wales-wide programme that is paving the way for community regeneration. The focus of activities is concentrated in and around the most deprived areas of Wales to promote economic, social, and environmental improvements – areas that receive help are selected on the basis of deprivation – initially targeted at the 100 most deprived Electoral Divisions in Wales.

Communities First was developed in response to the widespread disillusionment with grant-aided regeneration schemes and their ability to deliver sustainable regeneration, is designed to run for at least ten years, and has secured over £83 million in funding for 2006 to 2009. The Programme aims to help individuals and communities address the barriers to improvement, to involve local people in providing solutions to local problems, bring in funding and support from a range of sources to make things happen, develop sustainable improvements, and encourage flexibility and risk-taking.

The Programme operates through a series of partnerships which comprise local people, representatives of statutory bodies, and members from business and relevant voluntary and community organisations (a third from each group), which have a clear operational framework setting out powers, responsibilities, and patterns of accountability. Each partnership must develop a Community Action Plan, which must have a long-term vision (10 years) and medium (5 years) and short-term (3 years) goals, and cover key themes of jobs and business, education/training, health, environment and community safety. Currently 88 communities have been deemed eligible for Communities First funding.

1.4 Market failure in the delivery of urban regeneration programmes

Urban development remains a complex and long-term process riddled with obstacles, ranging from economic, technical, political and social factors to those that are financial in nature. It has been widely recognised that deprived urban areas in particular are the victims of market failure - or socially undesirable results of functioning markets - that market forces alone have not been able to remedy. Against this backdrop, a key challenge to successful delivery of integrated urban development projects is the provision of adequate financing, especially in the most deprived localities.

Across the EU Member States, public finance has traditionally provided the bulk of the monies for urban regeneration, either through national programmes funded from central government budgets or specially earmarked government funds, or through direct funding from
municipalities and/or regional authorities. Public funding is usually needed to overcome ‘profitability gaps’ and to facilitate and/or catalyse project implementation. For example, public funds are often required due to the market’s failure to address barriers to development such as land assembly, site decontamination, provision of basic infrastructure, etc. They are also frequently needed to finance investments which may be integral to an urban development plan and not particularly profitable in their own right (e.g. public spaces, socio-cultural activities, residential parking etc.), but which are nevertheless necessary for the overall success and profitability of projects. Indeed, a major concern of urban renewal/regeneration financing is the internalisation of the positive externalities generated by those components of an integrated urban plan that produce no or insufficient revenues.

Lack of financial flexibility at the local and regional level, and the need to balance budgets, has often resulted in urban regeneration initiatives being afforded lower priority than other public policy obligations (such as education, health, social services etc.). The net result is that projects in regeneration areas suffer from a shortage of local funds, and their implementation often depends on the availability of external finance from public resources at the national level or from private sector participation. In addition, lack of adequate local funding at times combines with poor planning and implementation of local regeneration projects, highlighting the need not only for an external financial injection but also the provision of outside technical and management expertise. Even when EU funds had been available in the previous programming period, the slow uptake, especially in New Member States, reflected the need for better project preparation, more flexible financial solutions, and better management structures. There is a clear financial bottleneck that needs to be unblocked.

Meanwhile, the sector’s complexity and the perceived risks associated with long-term urban regeneration initiatives have served to dampen the interest of private investors, although there are increasing signs that private developers and institutional investors are becoming more interested in exploring the potential for longer-term returns from development investments in urban areas. In this respect, the United Kingdom, and to some extent Holland, appear to be leading the way.

Historically, the urban renewal and regeneration ‘market’ in the UK has, in the main, been structured around types of activity or development, with the respective roles of public and private sectors clearly delineated, and little demonstration of integration of objectives, delivery approaches, or funding mechanisms. While the public sector traditionally undertook the role of acquiring and assembling land, addressing the need for site clearance, remediation and the provision/improvement of large scale infrastructure and public realm, the private sector has tended to focus on commercial, retail and housing development. More recently, however, there have been encouraging examples of a ‘blurring’ of this divide, with the adoption of a more integrated approach to funding.

1.5 The urban dimension of EU policy

The argument that urban issues are intrinsically domestic, and therefore better dealt with through national institutions, has often been invoked to limit intervention in the urban sector under subsidiarity considerations. However, given the emerging consensus of the European Union institutions, and indeed of industrialised countries generally, of the need to pay increasing attention to the urban environment, and the consequences that localised deprivation and social exclusion may have of the quality of life and economic performance of urban areas, it is hardly surprising that the urban theme should become part of the EU agenda. Due to the commonality of a wide range of problems, challenges and opportunities throughout Europe,
and the fact that cities are pivotal delivery points for many strands of EU policy, such as environment, economic and social cohesion and growth, employment and innovation, the protection and enhancement of the quality of the urban environment has become one of the priorities of European action.

EU Structural Funds have already been used extensively to support urban development and regeneration projects. The scope of investments made thus far - chiefly through URBAN Community Initiatives - point to an appreciation both of the importance of the role played by towns and cities for growth, jobs and competitiveness, and of the complexity of an integrated approach to urban development projects.

The URBAN I Community Initiative was launched in the 1994-1999 programming period as a response to the challenges facing the EU’s towns and cities. The total allocation of EU Structural Funds (83% of which came from the ERDF) amounted to EUR 900 million, a modest fraction of the EU budget but sufficient to enable the implementation of 118 urban programmes benefiting nearly 3 million inhabitants. In the main, URBAN I targeted the inner city and peripheral urban areas, almost 90% of which were located within cities with populations of over 100 000. The majority of expenditures went to physical and environmental regeneration, entrepreneurship and social inclusion initiatives.

The URBAN II initiative, covering the programming period 2000-2006, built largely on the success of URBAN I and its integrated approach to urban regeneration. Designed to promote the implementation of innovative strategies for economic and social regeneration in small and medium-sized towns and declining areas in major conurbations, URBAN II involves 70 programmes receiving a total ERDF contribution of EUR 728 million. Through co-financing mechanisms, this contribution has actually enabled a total investment of EUR 1.6 billion. Programmes focusing on social inclusion, employment generation and entrepreneurship represent 42% of total spending, physical and environmental regeneration accounts for 40%, while the remainder is allocated to transport and IT-related initiatives.

In addition, the EU has launched URBACT, a specific programme bringing together different groups of EU cities through a number of thematic networks (such as the one on Sustainable Communities) to exchange ideas on best practice and review lessons learned from various EU Urban Agenda initiatives.

It is evident that over the years urban development issues have become an EU policy priority and it is also clear that a European urban agenda has progressively consolidated. An urban dimension has been implicitly present in European policy delivery at least since the establishment of the Structural Funds. The problems of urban industrial decline were a key concern for DG-Regio in the 80’s, and played a central role for the definition of Objective 2 priorities for the 1994-99 programming cycle. The policy relevance of cities was made explicit in a more decisive way in the late 90’s, with the European Commission documents ‘Towards an Urban Agenda in the EU’ (1997), and ‘Sustainable Urban Development in the EU: a framework for action’ (1998), where key components of a European urban policy were outlined and then discussed in the October 1998 Vienna Forum. These events were important in determining the reinforcement of the urban dimension in the 2000-2006 programming cycle through specific priority axes and measures in Operational Programmes, and through Community Initiatives like Urban II and URBACT. The Rotterdam ministerial meeting on Urban Policy in 2004 acknowledged that the experiences of different European countries in the past decade generated a set of common principles that underpin successful policies, which was termed the Urban Acquis. In October 2005, by adopting an own-initiative report on the urban dimension, the European Parliament recognised that cities and urban agglomerations have a central role to play in achieving the revised Lisbon and Gothenburg objectives. The
competitiveness and employment objectives were thus added to the more traditional arguments focused on the environment and on physical infrastructure. Following in the steps of the Urban Acquis, the Bristol Accord agreed by EU ministers in December 2005 established the principles of a common EU urban agenda stressing the importance of developing sustainable communities.

The 2007-2013 programming cycle has thus brought the urban dimension into the structural policy mainstream. Community Strategic Guidelines recognise the importance of developing an integrated approach to territorial cohesion, while the EU Structural Fund regulations now explicitly incorporate sustainable urban development. This is in line with the current EU Cohesion Policy which, while refocusing on growth and jobs in accordance with the Lisbon Agenda, places a strong emphasis on sustainable urban development as a means of boosting regional competitiveness and fully realising the economic potential of Member States. Policies at both the European and national levels are expected to incorporate an urban dimension to address the market failures that exacerbate joblessness and social exclusion in the urban context. The need for a more integrated approach to urban questions will require a range of actions across different fields, a clear long-term vision and, critically, significant funding.

Given the consensus among policy makers of the need to develop new, more sustainable approaches to regeneration and urban renewal in the face of the traditional market failures that characterise the urban sector, the EU launched the JESSICA initiative in February 2006.

1.6 JESSICA and accelerated investment in integrated urban development

The European Commission launched the JESSICA initiative in response to the demand by several Member States and the European Parliament to give focused attention to the need for more innovative approaches to urban renewal and regeneration. Core drivers of JESSICA are perceived market failures in the urban environment, the lack of properly integrated urban development plans and programmes, a funding deficit necessitating greater leverage of scarce public resources and, overall, the need for a more commercial approach to the regeneration of urban areas.

JESSICA has been designed to facilitate the exploitation of financial engineering instruments to support the funding of urban renewal and regeneration schemes in the context of EU Cohesion Policy. It is perceived as a tool for stimulating private sector investment in integrated urban development through the use of market-driven instruments, and is expected to leverage EU Structural Funds’ contributions and mitigate some of the risks associated with complex urban development projects. The initiative is supported by EIB, which will provide specialist expertise and potentially loan financing, and it is also likely to attract additional loan resources from other international financial institutions, e.g. the CEB has already agreed to participate. Providing that it is built on a market-driven approach, it is anticipated that the Structural Funds used in JESSICA will also attract substantial additional capital from commercial banks and other private sector investors.

JESSICA is expected to create stronger incentives for successful implementation of projects by ERDF beneficiaries, by providing them with wider opportunities to employ the more traditional grant tools with loans and other financial instruments. Long-term sustainability will be reinforced through the revolving character of the ERDF (and ESF where eligible) contribution to funds specialising in investing for urban development. The recycling of funds through investments in revenue-generating projects, presents an opportunity for JESSICA to create a lasting legacy for the Structural Funds in the EU. Moreover, finding innovative ways
to bring in private capital and market-oriented solutions for accelerating change, should help to highlight the actual balance between the risks and returns achievable from regeneration, thus contributing to a change in mindset from a preoccupation with market failure to that of raising value and helping to create the sustainable urban communities of the future.

1.7 Role of Managing Authorities and Urban Development Funds

Under the new procedures, Managing Authorities can use some of their Structural Fund allocations – principally those supported by the ERDF but also, where appropriate, ESF – to invest in Urban Development Funds (UDFs) to accelerate investment in urban areas. UDFs would then draw down the investment from ERDF contributions, other national contributions if appropriate and private capital investors (both equity contributions and debt) if available, to invest in selected PPPs and other eligible urban projects, providing them with loans, equity or guarantees, or any other non-grant finance. UDFs could act purely as a finance conduit, or as either developers or joint venture partners providing complementary finance to support urban development by third parties. UDFs would share both risks and rewards with its partners. Other private banks or investors might also participate in projects supported by the UDFs. Recovered funds may be reinvested by the UDFs or returned to the MA to support other urban projects, including through conventional grants and subsidies.

UDFs can take different legal structures (from fully public to fully private, with all intermediary possibilities) and administrative forms, and need not be geographically specific. Their common features are a market-driven approach, as they are expected to at least recover their investment through risk-taking mechanisms having commercial return expectations, and the fact that they must invest in projects forming part of well-defined integrated urban renewal and development plans (IUPs). Project promoters could be public or private sector enterprises, or joint ventures involving these actors in any combination. The UDFs would monitor implementation of projects by final beneficiaries. The UDFs would report to the managing authorities (or such other intermediate bodies established for this purpose, e.g. holding funds) on their activities (selection of projects, implementation by final beneficiaries).

Spatially-defined UDFs would invest exclusively within an urban area within a specific locality supported by an integrated urban plan, or in any other administrative space allowed by the Managing Authority. UDFs could alternatively cover the whole or part of the Managing Authority area, but specialise in sectors or have well-defined objectives. Sectors could vary from public-service investments (e.g. public transport, cultural and sports venues, etc.) to those targeting private buyers and operators, including housing, offices, commercial areas and the like. UDFs could be used to support special purpose vehicles for the execution of major projects within an integrated urban plan (e.g. tramway concession, opera house, congestion charging instrument, etc.).

Managing Authorities deciding to use the JESSICA framework may provide funding to UDFs directly by launching tenders for interested UDFs. The selection criteria to be applied should include the scope of investments and projects to be targeted, the terms and conditions under which they would be financed, ownership and contributions of co-financing partners of the fund, the justification and intended utilisation of the ERDF contribution, the winding up provisions of the fund, etc. Following the selection process, ‘funding agreements’ would be signed between the managing or other authority and the selected UDF(s), specifying the terms and conditions for the usage of funds provided through JESSICA.

Given the difficulty a Managing Authority may have in managing non-grant instruments, it could decide to channel funds to UDFs using an intermediary Holding Fund (HF) structure.
Holding funds will receive monies agreed by the MA in order to invest in more than one UDF, providing them with equity, loans or guarantees. Under this alternative route, holding funds will select UDFs according to the conditions defined by the Managing Authorities. The selection and appointment of holding funds is subject to the normal public procurement protocols, although the regulations do afford Managing Authorities the option of entrusting EIB with such tasks in accordance with Article 44 of Council Regulation (EC) No 1083/2006.

1.8 Participation of EIB and CEB in the development of the initiative

A Memorandum of Understanding (MoU) between the European Commission, the European Investment Bank and the Council of Europe Development Bank was signed in May 2006, and provided a framework for a coordinated approach by the three partner institutions to the financing of urban renewal and development for the programming period 2007-2013 of the Community Structural Funds. The MoU states that the “coordinated approach agreed between the parties will contribute to better preparation and successful implementation of urban projects to be co-financed by them, including under the JESSICA initiative”.

EIB’s participation in the development and, later, the implementation of the JESSICA initiative is further underscored by the provisions of Article 36 of the Council Regulation (EC) No 1083/2006 which states that either the Member State or the Commission may request EIB’s participation in the programming of assistance from the EU Structural Funds, especially as regards the preparation of major projects or programmes which may require mobilising additional loan financing or other types of market-based financing or financial engineering instruments. The Article also specifies that, for the performance of such functions at its request, the Commission may decide to award the EIB or EIF grant resources.
2. BACKGROUND

2.1 The Market

Increasing recognition of the importance of the role of cities for economic growth and social cohesion, has resulted in a significant growth in the market for urban regeneration. In the recent past, many EU-15 cities have successfully completed major urban regeneration projects, particularly in inner city locations and public housing estates. Gearing up for a new generation of such programmes, the potential market remains sizeable. For example, in England, the Single Regeneration Budget (SRB) has been the main source of funding for urban regeneration projects since 1996. With 6 rounds in total, more than GBP26 billion has already been allocated to urban regeneration projects in the last decade, with over GBP 5 billion allocated to the SRB in the last round and with more than 100 currently active schemes in the various regions of the country. In Germany, the World Bank has estimated projected investment needs at around EUR 69 billion over the 2005-2010 period, with a significant backlog of investment needed in housing, land remediation and site preparation, particularly in the East, where there is an urgent need to address the acute problem of depopulation and ‘shrinking cities’.

On the basis of discussion with a number of practitioners, supported by preliminary analysis of the importance afforded to the urban agenda in those draft National Strategic Reference Frameworks (NSRFs) that were available at the time of writing, it is possible to estimate the potential amounts from the EU Structural Funds\(^4\) that the national authorities of the EU-27 could earmark for JESSICA-type projects over the 2007-2013 period. To this end, a theoretical model based on what are seen to be the key drivers of the potential demand for JESSICA has been developed by consultants on our behalf to estimate the possible size of the initiative’s market. It is assumed that JESSICA take-up in the respective Member States will be a function of a number of factors, of which the following are perceived to be pivotal:

- The need and plans for urban investment
- The maturity of the market for PPPs
- Policy priorities
- The capacity in the public and private sectors

Applying a set of relatively high-level assumptions to these factors, and given the size of the ERDF allocations in the respective constituencies, the model estimates that JESSICA will have an aggregate potential take-up of circa €90bn.

This estimate of the potential scale of JESSICA, at around a third of the total Structural Fund allocation, should be regarded as the high-end approximation and treated with appropriate caution. The approach to making a theoretical estimate of interest in, or take-up of, JESSICA, simply provides a starting point or reference for discussion and sensitivity testing of the key

---

\(^4\) The EUR 307 billion in EU Structural Funds over the 2007-2013 programming period are split among the following three objectives: convergence objective (which is allocated EUR 250.6 billion), regional competitiveness and employment objective (EUR 48.8 billion) and European territorial co-operation (EUR 7.73 billion). The three objectives are delivered by the three funds – European Regional Development Fund, European Social Fund (ESF) and the Cohesion Fund. ERDF contributes to all three objectives. While, the Cohesion Fund has a specific allocation (20% of the total), there is no fixed split between ERDF and ESF.
assumptions to facilitate analysis of the initiative’s overall potential. In practice, the amount will be much lower if, as expected:

- there is insufficient capacity to drive through the legislative and financial framework and incentives to make the wider use of PPPs for urban investment in areas where these are not commonplace;
- there is not a widespread change in culture away from pure grant-giving;
- NSFR priorities in EU-15 Member States are more aligned to ESF and Competitive economy agendas; and
- the bulk of major infrastructure programmes that dominate many NSRFs and national priorities (particularly in the New Member States) are not funnelled through JESSICA.

A summary of the methodology, together with the disaggregated results by country, is presented in Appendix C.

Breaking down the general estimate, the potential scale of JESSICA in the EU15 amounts to EUR 45 billion (or around 32% of the total possible ERDF and ESF expenditure) and, on the basis of the key assumptions, Spain, Italy and Germany are the largest markets. The other Member States with significant JESSICA potential – albeit due to their larger Structural Fund allocations – are Portugal, Greece, France and the UK. The potential scale of JESSICA in the New Member States could also reach as much as EUR 45 billion (or an equivalent of 39% of the total possible ERDF and ESF expenditure). Poland and Hungary both have large proportionate potential take-up of JESSICA as a function of high Structural Fund allocations, significant perceived needs and a track record and potential for PPP structures. In other New Member States, take-up is more limited by the ‘immaturity’ of the PPP markets (although this could quickly change) and a weaker focus on regeneration/territorial attractiveness.

The propensity of the New Member States - including Poland, which on its own accounts for 20% of the Structural Funds - to utilise JESSICA will be a major factor in overall take-up of the instrument. So too will be the priorities of 8 of the EU-15 (including Spain, Italy, Germany, Greece, Portugal, France and the UK) which account for 45% of the Structural Fund allocations. ERDF and ESF across the accession states and 8 largest EU-15 recipients will amount to EUR 234 billion. All in all, the use of JESSICA will be a function not only of national priorities but also the propensity of each Member State to accept the objectives of the initiative and their willingness and capacity to invest EU and other resources in innovative ways.

2.2 Context and propensity to use the financial engineering instruments

Although all Member States have identified significant needs for urban investment, priorities often differ. The objectives will often vary between cities covered by the Convergence Objective and those covered by the Competitiveness and Employment Objective. The majority of the EU-15 Member States have to tackle ongoing problems of post-industrial urban restructuring and those that are emerging in pursuit of more sustainable communities. The New Member States have needs that are focused on tackling chronic levels of under-investment in their housing stocks, environmental degradation and military legacy effects. In some areas, including in the former East Germany, there are de-population problems, including abandonment.
Most, if not all, Member States have in place plans for major urban investment. Although not always described as financial engineering instruments such as public-private partnerships (PPPs), urban regeneration projects have often involved the private sector, albeit not in necessarily very innovative structures. Historically, urban regeneration initiatives have been outweighed by emphasis on more economically focused ‘Lisbon’ activities.

Importantly, the shift inherent in JESSICA of moving from grants to recyclable investment does require a change in mindset and not all public sector bodies will be geared up to this change. Where a strong legal and political climate is set by national government, the prospects for JESSICA will be stronger. However, experience in the UK, one of the most advanced PPP markets, even now suggests that localised capacity to structure financial engineering instruments for urban regeneration projects is variable, and take-up will depend on having the right incentives and capacity building. However, given the time periods involved, a current lack of capacity or track record in financial engineering should not be seen as a fundamental barrier for take-up.

Countries remain at vastly different stages of understanding and sophistication in using innovative financial engineering and partnership models. Individual countries – and even individual regions and localities – follow their own path in developing infrastructure PPPs. Mixed capacity, based on local factors, characterises Member States’ financial engineering markets (such as PPP structures), but market internationalisation and the rapid spread of best practice in government means that situations can change very quickly. Countries at the earlier stages of PPP development could have the advantage of adopting from the outset some of the more flexible, creative and tailored PPP approaches now being used, allowing them to leapfrog to more advanced stages of maturity, potentially very rapidly. In particular, the opportunity provided by financial engineering instruments such as JESSICA could stimulate this market considerably.

In many cases, success will depend on the political and investment climate, and the track record in the use of PPP structures and other instruments of financial engineering. For the foreseeable future, the private sector must recognise the huge diversity of approaches across Europe and, in many countries, understanding of local market conditions and existing range of instruments will remain key.

2.3 Legislative provisions in EC regulations pertinent to JESSICA

The enabling framework for JESSICA is provided by general and specific regulations, which allow Member States to use some of their Structural Fund allocations to take advantage of financial engineering mechanisms to support investment in integrated urban renewal and regeneration schemes. The most relevant legislative provisions include (the full text for the respective Articles are set out in Appendix A):

  - Article 36 on the participation by the European Investment Bank
  - Article 44 on financial engineering instruments, and
  - Article 78, Statement of expenditure

  - Article 7 on eligibility of expenditure (especially as regards housing), and
Article 8 on sustainable urban development

  - Article 43 on the general provisions applicable to all financial engineering instruments
  - Article 44 on the additional provisions applicable to holding funds
  - Article 46 on the additional provisions applicable to urban development funds
  - Article 47 on the interventions in the field of housing

The 2006 amendments to EU regulations are of particular relevance for JESSICA, as they aim to provide the Managing Authorities of EU Member States with a legislative framework to exploit financial engineering instruments for financing of their urban renovation programmes. Articles 43, 44, 46 and 47 of the Commission Regulation (EC) No 1828/2006 of 8 December, 2006, setting out the rules for the implementation of Council Regulation (EC) No 1083/2006 and of Regulation (EC) No 1080/2006, spell out the general provisions applicable to all financial engineering instruments. Financial engineering instruments are understood to take the form of “actions which make repayable investments, or provide guarantees for repayable investments, or both, in public-private partnerships or other urban projects included in integrated plans for sustainable urban development, in the case of urban development funds”.

Article 43 of the Commission Regulation (EC) No 1828/2006 sets out the provisions relating to the set up, organisation and operation of those financial engineering instruments that will be partially supported by the EU Structural Fund contributions. To ensure transparent organisation and use of funds, a business plan, to be assessed and monitored by the Member State Managing Authority, is required to be submitted by the co-financing partners or shareholders of the urban development fund and/or holding fund. In addition, the Article specifies the legal set-up of the financial engineering instruments, including holding funds, as independent legal entities governed by agreements between the co-financing partners or shareholders or as a separate block of finance within a financial institution.

The Article spells out that “the terms and conditions for contributions from operational programmes to financial engineering instruments shall be set out in a funding agreement, to be concluded between the duly mandated representative of the financial engineering instrument and the Member State or the managing authority”. Furthermore, it also stipulates the maximum management costs for the running of the financial engineering instruments, including holding funds.

Article 44 Commission Regulation (EC) No 1828/2006 contains additional provisions applicable to holding funds, including the funding agreement between the Member State (or its Managing Authority) with the holding fund governing its operations and setting out the funding arrangements and objectives.

Article 46 Commission Regulation (EC) No 1828/2006 relates specifically to the additional provisions applicable to urban development funds. In particular, it specifies that, “when Structural Funds finance urban development funds, those funds shall invest in public-private partnerships or other projects included in an integrated plan for sustainable urban development. Such public-private partnerships or other projects shall not include the creation of..."
and development of financial instruments such as venture capital, loan and guarantee funds”. In addition, it states that the “urban development funds shall invest by means of equity, loans and guarantees”. Urban projects receiving grant assistance from an operational programme may also be supported by urban development funds. Importantly, “where Structural Funds finance urban development funds, the funds concerned shall not re-finance acquisitions or participations in projects already completed”.

Article 78 of Council Regulation (EC) No 1083/2006 concerns the contents of the statement of expenditure, including the total amount of eligible expenditure paid by beneficiaries in implementing the operations and the corresponding public contribution paid or due to be paid to the beneficiaries according to the conditions governing the public contribution. As regards financial engineering instruments, the statement of expenditure shall include the total expenditure paid in establishing or contributing to such funds or holding funds.

Importantly, any payments from urban development funds (UDFs) for investment in public-private partnerships or other projects included in an integrated plan for urban development, any payments for investment in enterprises from each of the UDFs, or any guarantees provided including amounts committed as guarantees by guarantee funds, and eligible management costs, all make for eligible expenditures at the closure of the operational programme.

Interest generated by payments from operational programmes to funds, shall be used to finance urban development projects. In addition, resources returned to the operation from investments undertaken by funds or left over after all guarantees have been honoured shall be reused by the competent authorities of the Member States concerned for the benefit of urban development projects or of small and medium-sized enterprises.

One of the key Articles affecting the organisation and operation of the holding funds and/or urban development funds concerns Article 44 of the Council Regulation (EC) No 1083/2006 of 11 July, 2006, which specifies that, “as part of an operational programme, the Structural Funds may finance expenditure in respect of an operation comprising contributions to support financial engineering instruments […] for urban development funds, that is, funds investing in public-private partnerships and other projects included in an integrated plan for sustainable urban development”. The most important (and controversial) provision of this Article concerns the fact that, “when such operations are organised through holding funds, that is, funds set up to invest in several venture capital funds, guarantee funds, loan funds and urban development funds, the member State of the managing authority shall implement them through one or more of the following forms: (a) the award of a public contract in accordance with applicable public procurement law; (b) in other cases, where the agreement is not a public service contract within the meaning of public procurement law, the award of a grant, defined for this purpose as a direct financial contribution by way of a donation: (i) to the EIB or to the EIF; or (ii) to a financial institution, without a call for proposal, if this is pursuant to a national law compatible with the Treaty”.

2.4 Integrated urban development programmes and eligibility criteria

Sustainable, integrated urban development is governed by specific provisions within the ERDF Regulation, whose Article 8 on sustainable urban development states that: “in the case of actions involving sustainable development […], the ERDF may, where appropriate, support the development of participative, integrated and sustainable strategies to tackle the high concentration of economic, environmental and social problems affecting urban areas. These strategies shall promote sustainable urban development through activities such as:
strengthening economic growth, the rehabilitation of the physical environment, brownfield redevelopment, the preservation and development of natural and cultural heritage, the promotion of entrepreneurship, local employment and community development, and the provision of services to the population taking account of changing demographic structure”.

Under the new EC General Regulation, “Structural Fund managing authorities may finance a broad range of public-private partnership and urban development projects”, including under the JESSICA initiative. The Commission Staff Working Document “Cohesion Policy and the cities: the urban contribution to growth and jobs in the regions” recognises that “traditionally, public-private partnerships for urban development have been more common in fields such as the creation of infrastructure and the provision of certain services (management of water, waste water, collection and processing of waste, public transport)”. The same document also states that “in urban regeneration, they [PPPs] can include tourism, housing, commercial development of city centres, health (including private clinics, medical, wellness and fitness services), the environment and information technology”.

Notwithstanding the above, EC asserts that “the concept of regeneration evades precise definition and leaves ample room for ambiguities and different interpretations”. In the absence of explicit definition on what constitutes an integrated urban development plan, the EC regulations leave scope for a certain degree of flexibility that is necessary in the context of JESSICA, not only in order for it to respond more realistically to the actual rather than the perceived needs of different Member States, but also to take account of the expectations of the private sector in its decision to contribute resources to the initiative. As different cities will face very different challenges - from increasing population, traffic congestion and overstretched public services, to depopulation, lack of jobs or low quality of life - integrated urban development plans will need to respond accordingly, and will necessarily comprise different components. There simply isn’t a one size fits all solution to urban problems.

Good documentation, reporting and monitoring of expenditures should ensure that all ERDF contributions are accounted for but, as suggested above, there also needs to be flexibility is interpreting the prevailing eligibility criteria. The ERDF regulations if applied too rigidly could be unduly restrictive and compromise the efficacy of the JESSICA initiative at birth. However, there is scope for a more flexible interpretation of the regulations if the requirement that projects must form part of an integrated development plan becomes the dominant criterion for eligibility, i.e. an integrated development programme is eligible, albeit that it might include project elements which if developed elsewhere as discrete investments might not be. In short, the ERDF eligibility criteria for what can constitute an integrated urban development plan or project should be interpreted flexibly, although the prevailing regulations must always apply to those parts of a UDF’s investment programme that will be financed with ERDF contributions. This issue is discussed further in other sections of this report and is clearly something that will need to be clarified by the Commission.

Box 2: Priority areas encompassed within ERDF’s scope of assistance under the ‘convergence’ and ‘regional competitiveness and employment’ objectives of particular relevance to integrated urban development projects:

---

5  From 13th of July, 2006.
stimulating research and technological development, information society and innovation and the knowledge economy;

promoting entrepreneurship in all sectors of the regional and local economy;

local development initiatives and aid for structures providing neighbourhood services to create new jobs;

education investments, including in vocational training;

investments in health and social infrastructure which contribute to regional and local development and increasing the quality of life;

protection and enhancement of the natural and cultural heritage in support of socio-economic development and sustainable tourism;

promoting integrated strategies for clean and sustainable public transport, particularly in urban areas, contributing to improving the access to and quality of passenger service;

rehabilitation of the physical environment, including contaminated and brownfield sites and land;

investments connected with water supply and water and waste management, waste-water treatment and air quality and waste minimisation and treatment;

stimulating energy efficiency and renewable energy production and the development of efficient energy management systems.

2.5 ERDF housing eligibility rules

Social housing features prominently in the EC-EIB-CEB Memorandum of Understanding which states that the “integrated plans for sustainable urban development and renewal addressed by operational programmes can include a social housing component, possibly eligible for loan financing by the EIB and CEB in accordance with their rules and procedures, or by ERDF contributions where eligible. The participation of other IFIs, public banks and, where appropriate, commercial banks and other private sector participants in social housing development, would be encouraged. The EIB and CEB will only support financially sustainable and technically and environmentally adequate social housing projects that form part of an integrated urban renewal and development plan, and/or carefully considered housing strategy which gives priority to urban renewal over greenfield developments”.

Although housing in itself has not previously been eligible for the Structural Funds, spending in this area will now be eligible under certain conditions for new Member States7. Even so, “expenditure on housing shall be limited to a maximum of 3% of the ERDF allocation to the operational programmes concerned or 2% of the total ERDF allocation to be applied to multi-family housing or buildings owned by public authorities or non-profit operators for use as housing designated for low-income households or people with special needs. Expenditure shall be programmed within the framework of an integrated urban development operation or priority axis for areas experiencing or threatened by physical deterioration and social exclusion”.

Meanwhile, certain housing-related activities will remain eligible in all Member States. These include: “rehabilitation of common spaces; demolition of deteriorating buildings; security measures and crime prevention; energy efficiency; support of social inclusion

7 It is estimated that around 40% of citizens in the new Member States live in communist-era housing suffering from low energy efficiency and poor maintenance and in need of substantive renovation.
measures such as proximity to health and education centres. These activities should always be carried out in the context of a long-term, integrated redevelopment plan for the affected area. The emphasis should be on creating the basis for new economic activity or improving the overall environmental quality of the area”. In addition, it is stated that the contribution from the ERDF to housing expenditure should concern the provision of good quality accommodation for lower income groups, including recently privatised housing stock, as well as accommodation for vulnerable social groups.

Article 47 on interventions in the field of housing specifies a set of criteria that would need to be met for housing operations to be eligible for ERDF financing (such as high concentration of unemployment and social exclusion, physical degradation, etc.). In addition, the regulation specifies the list of eligible housing interventions in the New Member States, such as the renovation of the common parts of multi-family residential buildings, refurbishment of the following main structural parts of the building, technical installations of the building or energy-efficiency actions. The regulation specifies explicitly that the “delivery of modern social housing of good quality through renovation and change of use of existing buildings owned by public authorities or non-profit operators” is allowed.

Importantly, “the purchase of land for an amount exceeding 10% of the total eligible expenditure for the operation concerned shall not be eligible for a contribution from the ERDF. In exceptional and duly justified cases, a higher percentage may be permitted by the managing authority for operations concerning environmental conservation.”

2.6 State aid and public procurement issues

The Commission has recognised both the importance of engaging private sector participation in regeneration activities and the need to safeguard competition by preventing instances of illegal state aid…Article 43 of the Commission Regulation (EC) No 1828/2006 specifies that the “managing authorities shall take precautions to minimise distortion of competition in the venture capital or lending markets”. Importantly, “although returns from equity investments and loans […] may be allocated preferentially to investors operating under the market economy investor principle, contributions to financial engineering instruments from the operational programme and other public sources […] shall be subject to the rules on state aid, including the Community Guidelines on state aid to promote risk capital investments […].”

Thus, although the Commission regulation allows for the possibility of ensuring higher returns to private investors, albeit in a controlled manner, the existence of the state aid element cannot be excluded in all cases. Because of the close risk-reward relationship, it cannot be assumed that partners in the undertaking are pari passu in risk if they are getting differential returns. As pointed out in the Commission’s documents, all suggestions for policy actions should be examined in their political, geographic, cultural, local, regional and national context.

According to Commission documentation (Vademecum on State Aid), given the complexity of implementing an effective regeneration framework, several Member States have already suggested in the previous programming periods that the Commission should allow for investment aid to be granted to undertakings in deprived urban areas under conditions different from those laid down in the Guidelines for national regional aid.

---

In compliance with current regulation/practice, public-private partnerships need to procure in accordance with prevailing EU protocols. Local government entities are insisting on application of transparent procurement procedures even if they would have not been required by regulation. The EC regulation states that: “For all types of PPPs, private partners must be chosen in accordance with EC rules on public procurement, where these rules apply. A properly conducted tender procedure will provide reasonable assurance that private partners will be remunerated in line with market conditions. In the absence of a tender procedure, the Commission will look at the detailed arrangements of the PPP and the safeguards put in place to avoid overcompensation in order to determine if state aid is involved”.

**Box 3: Excerpts from the European Commission staff working paper “State aid and regeneration of deprived areas” of 1st of March 2006 relevant to JESSICA:**

“All actions for urban regeneration and balanced development of urban and rural areas must be in conformity with EU state aid rules”. This can require a particular effort in urban areas, especially as “many deprived urban areas are within relatively prosperous regions and so fall outside areas designated for national regional aid”.

- **As regards the basic substantive rules on the control of state aid in the field of regeneration in the EU:** “Article 87 of the EC Treaty provides that state aid is in principle incompatible with the common market. Article 87(1) of the EC Treaty can be broken down into four tests to establish if a measure within an urban regeneration scheme constitutes state aid. A state aid will only be present if all four tests are met:
  - Is the measure granted by the state or through state resources?
  - Does the measure favour certain undertakings or the production of certain goods?
  - Does the measure distort or have the potential to distort competition by selectively favouring certain beneficiaries?
  - Does the measure produce an effect on intra-Community trade?

The principle of incompatibility of state aid with the Treaty is not, however, absolute. Article 87(2) and Article 87(3) contain a number of exemptions under which state aid shall or may be considered compatible by the Commission”.

- **General provisions under the Treaty regarding urban renewal or upgrading:** “In order to improve the physical environment, public authorities may wish to carry out investment in infrastructure: streets, renovating public spaces, water-ways, schools, improvement of public transport infrastructure or road networks, public amenities, waste treatment facilities, sewage collection. If such expenditure is either not awarded as aid to specific undertakings, or if it has no effect on trade between Member States, it falls outside the scope of Article 87(1) EC Treaty. Similarly, investment with public funds in the renewal or upgrading of residential areas or properties will usually fall outside the scope of Article 87(1) EC Treaty. Public authorities can thus make the reuse of brownfield sites more attractive compared with investment on greenfield sites. From the social perspective of a regeneration strategy, efforts to promote education, to support families, to provide leisure and to fight crime are not likely to constitute state aid”.

JESSICA Preliminary Evaluation Study/January 2007 26
As regards aid when the existence of a market failure can clearly be demonstrated: “Article 87(3) (c) states that aid to facilitate the development of certain economic activities or of certain economic areas can be considered to be compatible with the common market, provided that such aid does not adversely affect trading conditions to an extent contrary to the common interest. In this regard it is up to the Member State to demonstrate the existence of clearly defined market failures or of the situations when markets do not lead to socially desirable results and to show that the proposed measures are well targeted to address these identified efficiency or equity shortcomings through transparent evaluation of the benefits and distortions to competition associated with the regeneration state aid measure”.

As regards risk capital schemes aimed at urban regeneration: “The Commission’s Communication on state aid and risk capital sets out the criteria applied by the Commission to assess the compatibility of measures to provide risk capital or to promote venture capital funds. Without public intervention the capital market will be particularly reluctant to invest in start-up enterprises in deprived urban areas. Therefore, market failure can be demonstrated and venture capital fund schemes that have the broad aim of urban regeneration have been approved by the Commission”.

As regards aid for SMEs in run-down urban areas: “The new Commission Regional aid guidelines for the period 2007-2013 foresee additional flexibility regarding aid for SMEs which will help to tackle the most pressing needs of urban and local pockets of deprivation, below the NUTS-III level, provided they have a minimum population of 20,000”.

As regards services of general economic interest, including compensation granted to social housing: “According to Article 16 of the EC Treaty, services of general economic interest play a significant role in promoting social and territorial cohesion within the European Union. Member States have a wide margin of discretion regarding the nature of services that could be classified as being services of general economic interest. Compensation granted to social housing for services of general economic interest also benefits from the Decision irrespective of the amounts involved: this will enable specific and targeted support for social housing, which is essential for urban regeneration, without the need for a separate notification to the Commission. Compensation that exceeds the costs of the public service, or is used by companies on other markets open to competition, is not justified, and is incompatible with the Treaty’s state aid rules”.

As regards transfer of state aid to one or more of the private partners: Perhaps the most relevant point of all is the following -- in assessing state aid implications in public-private partnerships, the Commission considers the following as one of the essential points: “the arrangements for financing the PPP may or may not result in a transfer of state aid to one or more of the private partners. State aid could be involved if there is over-compensation of the costs of the private partners”.

2.7 Different operational contexts inform the Study
JESSICA is not a panacea but a useful tool in appropriate circumstances, and the European Commission has given the EIB the task of establishing the potential of the initiative and providing guidance for its effective implementation through the execution of an in-depth evaluation to: (i) review prevailing urban renewal and development actions, indicating the key administrative competencies and processes; (ii) identify the existing financial vehicles for urban investment; (iii) analyse potential market failures and how financial engineering actions and products could address any perceived deficiencies; and (iv) establish the interest in using UDFs to channel such actions.

This preliminary phase of the evaluation study has been undertaken within the time constraints of the launch of the next European Programme for the Structural Funds, commencing on 1st January 2007, and has been informed by a small but representative sample of case studies. The case studies were designed to identify potential issues or models around the development of financing mechanisms that might be appropriate in effectively implementing JESSICA across the EU and, based on the findings, further in-depth studies will be commissioned over the next two years.

Practical design and marketing of JESSICA will have to take account not only of the complexity of the subject at hand, but also country specificities and situations arising in different Member States where different ways of dealing with urban development issues may have developed. For the purposes of the study, it has been assumed that the existing markets for urban regeneration could, rather simplistically during this preliminary phase of analysis, be divided into three groups: ‘developed’ (where UDFs or something akin are already operational, e.g. the United Kingdom and Holland), ‘intermediate’ (where urban policies and intervention in the urban sector are already well established, but where UDFs do not currently
operate, e.g. Italy and Spain), and ‘developing’ (where the urban agenda is in its infancy, but where the latent demand for urban regeneration is quite significant, e.g. Hungary and Poland). The problems faced by these groups will inevitably vary and, although some issues are common, one solution will not satisfy all requirements, which necessitates flexibility in the design of any instrument and/or mechanism that needs to be replicated across the EU-27.

The case study portfolio therefore comprised a sample of UDF operations initiated and administered at different levels (national, regional and city-based), and in different environments and situations (country, size, maturity of EU membership, etc.). To reflect the perceived diversity in operational context according to our crude three category typology, it included: a UK study critically appraising UDF operations in what is perceived to be the most mature operational environment in Europe for this kind of investment vehicle; and five discrete, non-UK and country-specific case studies including Hungary, Holland, Italy, Poland and Spain. Separate contracts were awarded for each of the country studies, the objectives of which included:

- Identifying and summarising the nature and operation of intervention in the urban sector in the country in question, including the “planning” environment and prevailing protocols for the preparation of integrated renewal/regeneration plans.

- Reporting on the current policy arrangements for the operation of UDFs, if any, and the preferred level at which these are organised and administered, i.e. national, regional or city-based.

- Examining the current operation of UDFs within the selected country, with a representative and detailed case study to support the critical appraisal of current practice within the constituency and/or administrative tier under scrutiny.

- In the absence of any UDFs, a simulation reflecting the operational environment under consideration, illustrating how the JESSICA initiative could be exploited to best advantage.

- Establishing the scope for investing in UDFs as they may, or may not, fall within prevailing EC and EIB financing parameters.

- Identifying the need for technical assistance to establish UDFs in the various administrative/sectoral areas and, as appropriate, what the essential components of the envisaged assistance should comprise.

Executive summaries for the six country studies are included in Appendix B.
3. JESSICA IN CONCEPT

3.1 The JESSICA Schema

The regulatory framework set out in sections 1 and 2 above, has led EIB to develop the following schematic as an exemplar JESSICA structure. It mirrors the proposal from the work undertaken previously by the JEREMIE team in EIF, since the JESSICA regulatory framework was based on the model developed for JEREMIE. The holding fund element in the schematic is optional under the regulations.

The elements of the schematic are explained as follows:

Member States (MSs) are notified of their Structural Fund entitlements and allocate these to Managing Authorities (MAs). 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.

Under the regulatory framework, the Structural Funds must be matched (at Operational Programme level) by complementary contributions from other public or private sources. Thus, there is no absolute requirement for the JESSICA element of the MA’s allocation to be matched. Nevertheless, the absence of matched funding in the JESSICA element will simply increase the requirement for funding for another element of the programme, and we therefore assume that the Structural Funds allocation will be matched by national funding.

The MA will conclude a contract with the HF to control the governance and employment of the Fund. Any other parties contributing to the Holding Fund will need to accede to, or be governed by the terms of the original contract with the MA.
The management of the HF will include:

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

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

UDFs will themselves be managed by fund managers. For reasons of clarity, UDF fund managers are not shown in the above schematic.

The responsibility of the UDF fund managers, within the contractual agreement with the HF, will be to:

- identify suitable urban development projects;
- allocate contributions from the UDF to urban development projects;
- monitor and report on progress to the HF;
- collect remuneration on the UDF’s contributions and distribute returns to the contributors to the UDF; and
- prepare regular accounts on the performance of the UDF for submission to the HF and other contributors to the UDF.

3.2 Institutional models

The schematic as illustrated can be used in different institutional models. EIB started its work on the JESSICA initiative by considering a model in which:

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

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

The equity model is also closely related to the JEREMIE model in the SME market where a number of venture capital and other private equity providers operate.

In discussing the prospects for JESSICA in a number of Member States, however, it emerged that an alternative model for JESSICA ("non-equity model") would allow MAs to make repayable contributions to urban development projects without the requirement for a series of equity investments. In this model, an MA would simply provide a cash fund, which a UDF would draw upon under agreed contractual obligations, including the payment of interest or other form of return and the repayment of the drawn contribution.

The two models have different advantages.

The equity model aims to deliver correctly calibrated returns: equity return for equity risk. As such, it is likely to:

- attract private sector involvement;
- stimulate public private partnerships as it will encompass an equity element in the urban development projects;
- this in turn may be a key advantage for MAs seeking leverage of public funding, or aiming to increase commercial discipline in public investment; and
- be easily replicable in those countries with flourishing private equity and fund management markets.

The non-equity model is more closely aligned to grant funding, even if the form may be legally a loan fund. It will:

- be closer to how public sector sponsors currently organise Structural Fund and other grant provision and therefore easier to establish in areas without equity and fund management markets;
- attract MAs that want to keep control over the provision of JESSICA funding along with their urban planning duties, rather than sourcing third-party or PPP finance;
- potentially avoid the complexity of a Holding Fund structure where MAs deal directly with standard public sector recipients of structural fund grant; and
- where private sector contributors are not involved, be likely to avoid some state aid issues.

In summary, the non-equity model is likely to be easier to implement in the short term for public sector sponsors, but in the longer term it offers less scope than the equity model of achieving the key JESSICA objectives of encouraging PPPs and private sector discipline in urban development.
3.3 Operational parameters

Form of UDFs

The regulatory framework for JESSICA does not prescribe the form or nature of UDFs. In the equity model, UDFs are likely to be:

- equity-based funds;
- mixed public/private entities with a capital base; or
- entities (or funds within entities) such as housing associations, educational institutions etc, in Members States where those entities have a capital base separate from the public sector.

In addition, in the non-equity model in particular, UDFs could be little more than separately identifiable accounts of public sector entities, such as municipalities or regional development bodies.

Risk and returns

The regulatory framework for JESSICA does not prescribe the relationship between risk and return or the level of return sought from JESSICA funding. The only requirement is that contributions from JESSICA are made into urban development projects which are capable of generating a revenue to remunerate the JESSICA contribution.

JESSICA therefore has the scope to take on a variety of degrees of risk, or to participate in projects at different points in the project cycle. However, where JESSICA funding is contributed to projects on terms, or at times, different from those applicable to private sector interests, the issue of state aid may arise (see below).

Eligibility

The making of a contribution by an MA to a Holding Fund or UDF under JESSICA is held as per se eligible as an “interim payment” for Structural Fund purposes at the time of contribution. The contribution becomes finally eligible when the UDF contributes (“makes payment”) to a qualifying urban development project. The regulatory framework for JESSICA does not prescribe the nature of the qualification of the individual project, save that it must satisfy prevailing ERDF eligibility criteria.

3.4 Potential forms of investment

It is appropriate to illustrate JESSICA in concept by two examples of potential contribution from JESSICA funds to urban development projects.

Example 1 - equity model

A former docklands area is being regenerated under an integrated urban development plan. The area is to include a leisure centre and marina, social housing units for rent and apartments for sale, commercial offices and retail outlets.

A consortium of developers and financiers, including a UDF, is to develop the area in different tranches.
The UDF provides equity support to the project. The support may be in the form of actual investment, or as commitment of backup equity funding required to complete the project. The UDF takes risk on the success of the development. A return is available to the UDF either over the long term as debt is repaid and equity is remunerated through rental yield, or through the sale of property, or through refinancing of debt. The UDF retains the return for equity investment in its next project.

**Example 2 - non-equity model**

A municipality is planning to organise the redevelopment of a former industrial site close to a city centre. The municipality owns the site and uses funding available in a UDF from the regional development body to pay for the remediation of the land. It negotiates the sale of the land to a developer with specific building permits for the municipality’s desired development. The UDF does not take risk on the development, but on the uplift in value of the pre-developed site. A return is available to the UDF from the sale of land to the developer. The UDF returns the contribution and earned return to the MA, which uses it for new development in a different municipality.
4. CASE STUDIES

4.1 Preamble

Introduction
This section provides the main conclusions from the review of the case studies by the JESSICA team. The studies that were commissioned are of variable depth of analysis and, given that different studies also vary in focus, uniformity of information was not always possible. The executive summaries of each of the studies, together with information on the retained consultants, have been provided in Appendix B, and the full studies are also available on request.

Key issues and lessons learned
One of the most important results from the case studies confirmed the expectation that the market for urban renewal/regeneration is likely to be very different from one Member State to another, so that direct replication of ideas and concepts across the EU will not be possible without further consideration of their applicability in particular markets. The review of the regeneration and urban renewal market place in several EU Member States identified a number of examples where public sector intervention has been shown to be effective, and also some where this has not been the case. This in turn helped identify not only the examples of best practice but also potential areas of market weakness or failure that represent the ‘gap’ where the JESSICA initiative could fulfil a valuable role. Key issues:

- **Need for flexibility of approach:** If the JESSICA objective is to support the development of sustainable communities through accelerating investment in integrated urban development projects, in order to be successful, JESSICA will need to have a degree of flexibility in both the definition of its general objective and in its eligible fields of intervention - in particular when attempting to accelerate urban development projects by encouraging private sector investors to participate with the JESSICA instrument financed through ERDF.

- **Definition of regeneration:** Various case studies demonstrated that there is a significant range of activities that could technically be classed as ‘regeneration’ in nature – varying from very localised community based activities through to City/Region-wide development strategies and frameworks. A key issue for JESSICA therefore is identifying the appropriate level at which to intervene in any given circumstance, and to ensure that correct linkages are made to other national and regional policies or activities. In any event, it will be important that the intervention can be viewed as a part of an holistic package of regeneration activity.

- **Policy and strategic fit:** The analysis and case studies highlighted a key challenge for JESSICA, i.e. to ensure that its targeted activity complements existing and planned interventions in the Member States. This issue will need to be considered particularly in terms of replicability across the EU. Policies will vary across the Member States, and it is important for JESSICA to be cognisant of individual priorities within each Member State in order that objectives and strategy are aligned appropriately. The conclusions of the case studies also highlight the view that less developed markets

9 The views expressed in the case studies and in the summaries are those of the consultants and not necessarily those EIB.
may find it more difficult to take the immediate step to adopting innovative funding products, and may require more traditional intervention support, at least in the initial stages.

- **Regional disparities:** Significant regional variations in regeneration priorities have been recorded both among, as well as within, different Member States. In this respect, JESSICA structuring will need to be flexible enough to tackle a diverse range of issues that will differ from location to location. Given the differences in causes of market failure/weakness, careful consideration will need to be given as to how UDFs bidding for funding from the initiative will be evaluated against one another in assessing priorities and value for money.

- **Consistency of approach through appropriate development plans:** The case studies underlined not only the need to have a strategic plan to provide focus and clarity, but also an appropriate development plan to ensure consistency of approach. However, there was much less consensus from the case studies on the type and form of coverage for integrated development plans (for example, should these embrace a wider regeneration agenda, including health, education, etc.) and what legal ‘status’ these should have, i.e. either formal adoption or informal approval. Also, the case studies point to the need to ensure that there is a clear and agreed programme into which the JESSICA funding is going, with agreed obligations on all parties involved in order that the monies are not put at risk by ‘non delivery’ by third parties and also to prevent slipping back into ‘piece-meal’ development.

- **Clarity of purpose:** The development of JESSICA will need to be framed to ensure the market understands what JESSICA is in place to achieve; how to access JESSICA funding in a practical and straightforward manner; and that the return requirements expected for JESSICA funding, and the interaction between the Holding Fund, UDFs, and individual projects/programmes on the ground are transparent and facilitate investment. This understanding will aid market acceptance of the more complex types of financing structures and financial return calculations that are likely to be put in place, and help to ensure that investors are comfortable.

- **Complementary role for JESSICA mechanisms:** JESSICA should complement other public delivery approaches and programmes and add value. Moreover, it should complement private sector investment activity, appropriate to the level of market appetite and sophistication in each Member State; the level of activity that JESSICA undertakes in each Member State may vary significantly. Against this backdrop, JESSICA should intervene where there is market weakness or failure leading to a lack of appetite by the private sector to invest, and where a specific public sector ‘need’ has been identified.

- **Up front enabling investment:** This is related to the often significant up front cost of enabling infrastructure investment in relation to a site/project. The reports emphasise the need to consider how JESSICA might assist in resolving this and related issues, especially given that JESSICA is likely to be required to invest at the higher risk end of the spectrum for projects. There will need to be an appropriate risk assessment/mitigation strategy in order that investment of this nature is effectively managed.

- **Intervention composition and scale:** The analysis suggested that it may be necessary, given local needs, to offer a choice between: Grant Aid in absolute market failure areas, equity investment in areas which require a lower level of intervention to
progress investment activity; and/or the development of a portfolio of investment approaches such that high risk investments are balanced by lower risk investments with a potentially higher financial return. It will also be important to understand the implications of the scale of investment required in projects at a local level to achieve appropriate impact and return, as a means of understanding the appropriate form of intervention that may be required and the level of financial input that may be required to achieve JESSICA’s objectives.

- **Flexibility in financial return:** There is need to take into consideration the principle that investing for private sector level financial returns may not provide the required additionality over the market. Some reports, especially in the ‘developed’ markets identify the need for consideration to be given to enabling UDFs to take returns over a longer period than the private sector; to take on higher risk investment than the private sector is prepared to undertake; to accepting a principle of differential financial returns to the public sector as opposed to private sector returns; and the principle of underwriting private sector investment in areas where it would not typically invest. It is important to adopt an approach that secures a ‘shared return structure’ rather than ‘first loss position’ for the public sector partner, as this helps to tie-in private sector partners and protects the public investment.

- **Management expertise:** The case studies identify a need to ensure that sufficient and appropriate expertise is available to support and manage the process of investment by UDFs to both protect the public investment and maximise potential returns and benefits. In addition, the case studies also point to the need to manage partners effectively and ensure commitment over the long term to strategic goals and wider objectives, and not resort to securing a short-term return. This can be an issue in terms of protecting potential returns to the public sector, and in preventing public partners from undertaking deals to secure short-term ‘political’ advantage.

- **Complexity of the application processes:** The restrictions placed on securing public funding (i.e. the conditions attached to the provision of funds, including conditions related to ‘claw-back’ of funds and provision of ‘matched funding’) was seen as an existing barrier to the take up of structural funds, which could therefore also potentially represent a barrier to JESSICA implementation. In order to promote effective implementation of JESSICA, it is important that careful consideration be given to making the application and funding processes simple to understand and the funding straightforward to access, use and manage on an ongoing basis. A key issue here is the need for more clarification on State Aid issues.

**Main findings in terms of existing markets, context and practices**

The key messages emerging from the analysis and assessment of the detailed case studies in terms of existing practices that grew out of local specificities, and the level of sophistication in the organisation and development of the urban regeneration market in different Member States include:

- The existence of a plethora of structures, programmes, initiatives and approaches.
- The shifting nature of the regeneration/urban renewal environment and policy agenda.
- Standardisation and replicability requirements can be a barrier to effective regeneration and urban renewal activity to meet local needs and market context, particularly in areas of substantial market weakness or failure.
There is little evidence to date of consistency by existing vehicles/mechanisms in their approach to defining and preparing integrated development plans (IDPs) which could form a standard model for implementation at a UDF level, although some suggest that the absence of such standardisation actually affords more flexibility to UDFs.

There was no consensus on the potential scope of UDFs and whether they should be national, regional or city level, with arguments for and against each option. Also some discussion that UDFs could be sectoral or thematic in focus.

Management/Governance arrangements for UDFs will need to address finance and management expertise within the same structure.

The scope for JESSICA to intervene in a number of different sectors would be beneficial (e.g. housing / commercial / public realm etc).

Strong leadership and community participation are key to long term success and sustainability.

The need to carefully consider the projected lifespan of the UDF. This needs to be long enough to implement development, secure an appropriate return, and facilitate the recycling of funds.

There is need to consider the full range of financial mechanisms to encourage private sector input, including guarantees, having the flexibility to balance the costs up front and achieving appropriate levels of return for all partners.

Consideration should be given to using a mix of funding, including more traditional grant approaches, particularly for larger scale developments with substantial up-front infrastructure requirements.

Achieving an up-lift in publicly held land/property asset values is the key to securing investment. There is a need to agree initial value and independent assessment of new values and the public sectors share, which can then be recycled through the development.

### 4.2 United Kingdom

**Introduction**

The United Kingdom analysis provides a comprehensive overview of the UK environment for regeneration and urban renewal, including an evaluation of the existing financing instruments in this domain, as well as an assessment of the ongoing changes in the UK regeneration and urban renewal market, including those of its funding system. The analysis included case studies of UDFs administered at national, regional and city levels, which highlighted the fact that the UK urban renewal market is by no means homogenous, exhibiting differing approaches, structures and solutions according to perceived needs. Meanwhile, the study provided a wealth of information on existing equity-based fund models and their performance, and sought to identify key lessons and examples of best practice that could be applied in differing urban development environments across the EU.

**General market characteristics**

The UK is a mature environment for regeneration and urban renewal with a long track record of activity and a wide range and complex mix of organisations and ‘players’ at national,
At regional, sub-regional and local levels, undertaking redevelopment both directly and indirectly. It is important to note that the UK market in this sector is far from homogenous, with differing approaches and structures in place in England, and the devolved administrations in Scotland, Wales and Northern Ireland. A level of consistency is, however, achieved at a national (and European) level in terms of overall vision and objectives informing policy and strategic direction, but there is less consistency in implementation, with substantial variation in terms of delivery structures, financing and management approaches.

The country’s market for urban regeneration and renewal is also undergoing a process of change driven both from: the top-down at a strategic and policy level within Government, and an operational level in terms of changes in priority, focus and structure of national delivery organizations; and the bottom-up with local, sub-regional and regional players from both the public and private sectors. This process of change has not only seen an increased focus on urban priorities (particularly urban centres), but also a more holistic approach supporting the country’s sustainable communities agenda (linking physical renewal of the built environment with improvements in housing, education and health provision), as well as driving the development of innovative mechanisms and structures for funding regeneration programmes.

The last ten years has seen a substantial change in the urban and regeneration environment of the UK. In virtually all of the country’s major cities substantial transformation has taken place, with a focus on design and the development of iconic buildings, new retail, leisure and residential developments, and public open space. The creation of new ‘environments’ that are community and eco-friendly has attracted residents, workers and investment back into the city centres, reversing decades of decline and deprivation, and offering significant improvements in the quality of life for residents. Research for the Department of Communities and Local Government and the results of the ‘Core Cities Review’ outlined in the ‘State of the Cities Report’ highlighted that this process is on-going, and that it will be a far from ‘smooth path’ to success or completion.

**Current funding approaches**

The approach to funding regeneration and urban renewal in the UK has traditionally focused on the public sector supporting infrastructure related costs, often provided ‘up-front’ of participation by the private sector in commercial developments and often as enabling investment. More recently there have been examples of a ‘blurring’ of this divide with the adoption of a more integrated approach to funding, which could provide opportunities for the involvement of UDFs.

The UK Government has recently commissioned a review of the funding of Local Government (the Lyons Inquiry), which will have implications for the approaches to the funding of regeneration and urban renewal by local government bodies, with the potential to establish new ‘ring-fenced’ funding approaches. Local authorities in the UK have limited capacity to raise tax revenues to finance the infrastructure needed to unlock development (although there is scope in the devolution legislation for this to be undertaken in Scotland and Wales). This is in contrast to many other countries around the world, where a variety of different taxes are available to municipalities and other local government bodies. The bulk of directly raised local funding in the UK is secured through the Council Tax, which is related to property values – a position which is not repeated in other EU Member States – and has potential implications for JESSICA and the role and remit of UDFs within the country. The UK Government has also tasked other delivery organisations, such as English Partnerships

---

10 *State of the English Cities (Urban Research Summary 21), Office of the Deputy Prime Minister, March 2006.*
and the Regional Development Agencies, with developing new approaches to funding development in their respective areas/jurisdictions.

The urban renewal and regeneration ‘market place’ in the country has been structured around types of activity or development, with the key roles of the public and private sectors traditionally clearly delineated, with little demonstration of integration of objectives, delivery approaches, or funding mechanisms. The public sector has, in the main, undertaken the role of acquiring and assembling land, addressing the need for site clearance/remediation, the provision/improvement of large-scale infrastructure, and public realm. The private sector has tended to focus on the development of commercial and retail complexes, and housing on such sites. This situation is beginning to change, however, with an increasing trend towards greater integration.

The country has witnessed a marked increase in the development of new ways of financing regeneration and urban renewal. In addition to policy developments, this has in part been driven by restrictions on funds to local government allied to a significant back-log in terms of investment needs including the replacement, refurbishment and up-grading of substantial stocks of physical infrastructure, e.g. roads, schools, housing, hospitals, and other community and social infrastructure including public realm. Government policy has also driven the need to secure both more private sector participation in funding regeneration activities per se, as well as the inculcation of more commercial approaches within the public sector to increase efficiencies and secure better value for money by transfer of financial best practice from the private sector.

Most of the mechanisms currently being tested and developed have their origins in attempts by the public sector to secure a share in the benefits arising from up-lifts in the value of publicly owned land and property assets. More recently there has been growing interest in securing increased levels of financial return and facilitating the recycling of funds. To date, much of this activity has applied existing value-sharing mechanisms such as Section 106 and Section 75 up-lifts\(^{11}\). More recently there has been increased interest in developing potential new mechanisms including planning gain supplement, business growth and improvement linked schemes, public sector guarantees and opportunities for leveraging of future revenues.

---

**UK Case Studies -- Key Issues for Consideration in JESSICA Development**

The UK case study is, in many ways, the most comprehensive as it involves the review and assessment of three selected funds or PPP structures operating at the national, regional and city level respectively\(^{12}\). Analysis of the results and more general assessment of the UK market for regeneration and urban renewal also led to the conclusion that there is no one model which fits all – and that flexibility to respond to ‘local’ needs and requirements – governed by some form of framework – is often more effective in securing required buy-in and active participation by all parties, from the public and private sectors as well as local communities – the

\(^{11}\) S106 in England and S75 in Scotland are agreements between a local authority and a private developer which can be used in the context of a planning consent to provide mitigation against the impact of development, such as additional infrastructure, or – increasingly – to require the inclusion of affordable housing provision.

\(^{12}\) These are: English Cities Fund (ECF), North Solihull Partnership and Laganside Development Corporation (LDC).
ultimate beneficiaries of the interventions – than a rigid, centrally prescribed structure. The key issues identified through the case studies have been classified into themes addressing the strategic context, potential market gap/failure to be addressed, potential structures for delivery, and mechanisms for securing returns:

*Strategy or Policy Framework:*

-- It is important to have a strategic plan to provide focus and clarity, but equally important to understand what its status is, particularly in regulatory/legal terms

-- Community participation and a more holistic approach to regeneration and urban renewal are important to enable inclusion of public realm and other infrastructure development activities, and buy-in by private sector investors to funding these as part of a larger development

-- Increased linkages to an appropriate ‘strategic plan’ are important for securing resources from public bodies. This is increasingly the case with greater focus on urban areas and centres in the new Regional Spatial Strategies, and increased emphasis on environmental factors and issues

*Market Gap or Failure:*

-- Ability to secure funding to cover infrastructure requirements is the key issue and barrier to development

-- The majority of projects need to secure working capital, there is therefore often a need for grant funding to enable investment and “make things happen” in the early stages of project development

-- There is need to develop an approach which addresses inertia in the public sector and differences in culture and approach between public and private sectors

*Structure of Returns:*

-- There is need to ensure that a structure or return profile is developed which ‘protects’ the public sector investment without discouraging private investment, although a balance of returns should also be achieved – use of shared return profile etc – requiring appropriate commitment and ‘buy-in’ from private sector

-- It is important to adopt an approach that secures a ‘shared return structure’ rather than ‘first loss position’ for the public sector partner as this helps to tie-in private sector partners and protects the public investment. However, a flexible approach may enable more to be achieved by changing the balance – taking a more risky approach to get greater benefit in deprived areas, where only the public sector can/will intervene – but also consider impacts of public sector procedures and risk aversion

-- It is important to clarify the position in terms of State Aid
-- There is need to consider a range of financial mechanisms to encourage private sector input but also important to ‘protect’ public investment and return

-- Achieving an up-lift in publicly held land/property asset values is the key to securing investment

-- There is a need to address any issues related to the treatment of funding if the development doesn’t make a return

**Governance and Structure:**

-- There is a need for leadership and clarity of purpose and for strong management of the delivery vehicle

-- There is need for clarity and simplicity in terms of the structure of the delivery vehicle

-- There is need to manage partners effectively and ensure commitment over the long term to strategic goals and wider objectives – and not resort to securing a short-term return

-- There is need to identify what extra value/benefit will/can be achieved and over what period as well as what will/could prevent this from happening

-- There is need to ensure that contractual and legal requirements do not restrict, inhibit or stifle potential, and reduce benefits

-- Securing local knowledge and appropriate commitment is crucial

-- There is a need to carefully consider the projected lifespan of the UDF, which should be long enough to implement the development and secure the return and facilitate the recycling of funds

---

**Implementation of JESSICA in the UK**

A key challenge for JESSICA will be to ensure that its activity is targeted and complements existing and other planned interventions in the urban sector. The UK experience may also be helpful in considering how JESSICA might operate in other EU Member States, both in terms of the positive results, and problems encountered/lessons learnt. The consultants stressed, however, that the UK market for urban regeneration is likely to be very different to that in other Member States and, therefore, the study urged caution when considering replication of the ideas and concepts in other operational environments. Where possible, the study sought to highlight issues and practicalities for JESSICA that may be relevant in other Member States, but further work would be required to test these views.

The UK market context has identified a number of examples in which public intervention has been shown to be effective, but also other areas which have been less successful. A key element of this review, and an important part of the consultation exercise, has been to identify
whether there are any key gaps which exist in public sector intervention which JESSICA could seek to fill.

It follows therefore that the structuring of JESSICA should seek to ensure a complementary approach is adopted that accommodates current interventions in the UK. There were three key areas consistently identified by the case studies as potential areas that JESSICA could focus on in the UK and beyond:

- Up front enabling investment;
- Investment in projects at a local level that have the potential to achieve a step change, which we have referred to as Project Definition
- Flexibility for interventions under JESSICA to influence the risk reward calculation rather than a rigid equity investment.

**Comment**

The review of the UK market confirms that there is no one model which fits all, and that flexibility to respond to local needs and requirements, rather than a rigid and centrally prescribed structure, is often more effective in securing the required buy-in and active participation by stakeholders. In addition, it stressed that the structuring of JESSICA should seek to ensure a complementary approach is adopted that accommodates current interventions, especially in countries with more developed urban renewal and regeneration markets. Despite a plethora of existing solutions, the consultants still found interest in JESSICA-type mechanisms in the UK, provided sufficient flexibility in approach is ensured. Given the administrative and delivery vehicles already in place, use of holding funds within the JESSICA structure appear unnecessary within the UK context. However, this is not an opinion shared by all commentators, and several authorities have expressed an interest in both JESSICA and the use of holding funds.

**4.3 Holland**

**Introduction**

The Netherlands study included an analysis of the existing structures and mechanisms for financing urban regeneration projects that were administered at the national level. According to the consultants, public finance - including EU funds - plays an important role in facilitating urban regeneration. At the same time, because there is a well developed market for urban regeneration, the country already has considerable experience in attracting private sector participation (mostly developers) in the financing of regeneration projects or, to a somewhat lesser extent, in the sharing of risks and benefits through PPP structures. Nevertheless, there would appear to be considerable interest in the use of JESSICA-type UDF financing mechanisms to better address certain cases of market failure and to provide further focus for investments in urban regeneration.

**General market characteristics**

Holland is a highly urbanised society, with exceptionally high population densities. Although boasting only a few major cities by international comparison, the country’s dense urban networks link a large number of medium sized and smaller cities. Holland’s key urban issues comprise problems of social exclusion and crime, income- and ethnicity-induced spatial segregation, run down housing stock in particular areas as well as a lack of affordable, quality housing, and long-term unemployment. Such problems are exacerbated by sub-urbanisation...
pressures, with the exodus of middle-class families increasing the pressure for higher public sector spending both on redevelopment of central localities and brownfield investments.

Holland adopted a national urban policy, Grotestedenbeleid (GSB) in 1994. Initially designed for the fourth largest city of Randstand, it now covers 31 urban settlements and is currently in its third phase, extending to 2010. EUR 3.6 billion in national government investment is envisaged between 2005-2010 (at 2004 prices), excluding the estimated multiplier effect from additional investments by local government administrations, housing associations, developers, private sector companies and social institutions. Within the cities under the national urban policy, 56 special districts have been nominated where there is additional focus on physical regeneration and housing. The financial needs for the next period to 2015-2020 have already been estimated at EUR 1.4 to 6 billion per year (at 2006 prices).

Importantly, the GSB focuses on integrated urban development, including housing and physical regeneration, economic and employment intervention (including brownfield industrial redevelopment and tourism promotion), social policy, safety and promotion of good governance and civic involvement. The national urban policy is coordinated by the Ministry of the Interior. It entails government subsidies for local government, housing corporations and all other stakeholders for investments in all kinds of plans for revitalising cities. In this respect, an increasing range of responsibilities is being passed to the municipal level, allowing for the implementation of programmes better suited to local needs and for more accountability by local authorities and their partners, i.e. housing corporations.

Urban development initiatives involving ‘kansenzones’, or areas of high economic potential, provide a good example of the success of Holland’s integrated approach to urban renewal. Projects in these districts provide financial incentives (up to 50% of invested capital in some cases) for local entrepreneurs to move their businesses into the area or to refurbish their existing real estate. Furthermore, local businesses are encouraged to look for employees within their own neighbourhoods/districts. If local employees do not have the necessary skills, additional schooling is offered. According to the case study findings, urban renewal projects are expected to generate a multiplier effect, both financially and environmentally.

The EU also plays a relatively important part in fostering city investment, as Holland spent EUR 200 million of Objective 2 funds on urban development projects between 2000-2006 (at 2000 prices). Another EUR 50 million in projects within 3 cities supported by the Community initiative URBAN II were expended over the same period. The Structural Funds available for Holland in the 2007-2013 period amount to approximately EUR 1.7 billion. An urban component was contained in each of the four regional operating programme, with the urban dimension especially prominent in the West ROP.

The consultant’s estimate is that the total amount of ERDF ‘Competitiveness’ money directed towards the urban dimension might amount up to EUR 250-500 million euros between 2007-2013. In addition, when adding ‘urban oriented’ investments within the Territorial Cooperation Objective, this amount might rise to EUR 350-600 million. It is worthy of note that this figure compares with our model estimate EUR 715 million (see Appendix C) for the potential ceiling of the uptake of JESSICA in the Netherlands.

Funding sources for urban projects

According to the case study, public finance plays an important part in urban regeneration. Local authorities can use direct finance available from their annual budgets or obtain relatively low interest rate loans from public sector banks such as Bank Nederlands Gemeenten (BNG) and, to lesser extent, Waterschapsbank. OPP, a subsidiary of BNG invests
in the equity of major public sector spatial development projects throughout Netherlands. Another BNG subsidiary, Vastgoedontwikkeling (BVG), operates similarly to OPP but with a focus on the development of actual real estate (such as social housing, hospitals, schools, etc.). Many local authorities use framework loans, while individual loans are also increasing. The latter are often project-based.

Amongst the most important actors in the urban regeneration field are housing corporations. These public – but independent and self-sustaining – companies tend to make major investments in the maintenance of their large housing portfolios, but have in recent years also increased funding for projects revitalizing the respective housing estates. Many housing corporations have substantial financial reserves. In addition, they can borrow money at relatively low interest rates and on favourable conditions from their national ‘sector bank’, the Waarborgfonds Sociale Woningbouw (WSW). As regards support in equity participation, housing corporations may use the OPP and BVG facilities.

Given its relatively developed market for urban regeneration, Holland already has considerable experience in involving the private sector (in the main developers) in the financing of urban regeneration projects or, to a somewhat lesser extent, in the sharing of risks and benefits through PPP structures. Various funding sources are available, with standard project financing supplemented by different project bonds, equity stakes and profit sharing agreements. Notwithstanding such diversity, private sector participation is still mostly through developers who invest in developing the plan and the real estate, and then sell to another investor. In Holland, developers and banks (such as ING, Rabobank and Fortis) readily combine their activities: developers and investors attract money from commercial banks, which finance development activities mainly through loans, and pay interest accordingly.

Importantly, the case study pointed to the fact that, in Holland, there is an increasing focus on public-private partnership (PPP) arrangements, often between land-owners (private developers) and local authorities. As an example, Rabobank Real Estate has set up the Eerst Amsterdamse Gebiedsonserennening, a joint venture selling properties to institutional investors united in a public liability company called Stedenfonds (City Fund). EUR 275 million of funds, with 85% participation by institutional investors, offer the opportunity for direct investment in selected problem areas of Amsterdam. There are other, less ambitious, instruments to facilitate private sector contributions to urban regeneration projects, such as concession leases, developer contributions and developer rights. While some local authorities use land-leasing systems, many others try to use receipts from land sales to pay for social and other public facilities.

Case-study Rotterdam ‘Pact op Zuid’
The southern part of Rotterdam (Rotterdam Zuid) is an area with approximately 300.000 inhabitants. It is located on the banks of the river Meuse and situated between green areas to the south and the harbour to the east. Multiple problems are interacting in the area: poor living conditions, hardly any appeal to local inhabitants and potential newcomers, a growing lack of social cohesion, no obvious identity, and not enough differentiation within the housing stock.
Different parties recognise the potential of Rotterdam South and, to this end, housing corporations have joined forces with local and sub-local governments, the Rotterdam Development Agency (OBR) and other public bodies and stakeholders including schools, local entrepreneurs, residents’ associations, the police and social services agencies to strive for improvements. The parties involved sealed their commitment and came up with a joint integrated vision: Rotterdam ‘Pact op Zuid’.

The funding made available for the delivery of the Pact op Zuid comes from a number of sources. Five housing associations have pledged € 1.4 billion, additional to regular expenditure, to be invested not only in housing but also in local amenities and the social agenda. The Rotterdam municipal authority will contribute € 170 million to be used for physical restructuring, with additional sums being made available for the delivery of economic and social programmes. To ensure effective financial management and promote transparency, the municipal authority has opted to hold its own monetary contribution to the Pact in a special centrally located fund, completely separated from the regular budgets of the various municipal departments.

The management of the funds pledged by the five housing associations remains in the hands of the associations themselves so that there will be no direct cash flows from the housing associations to the municipal authority and/or Pact op Zuid. The housing associations are tasked with ensuring accurate, timely and transparent accounting of the investments made in Rotterdam South, so that the delivery of the Pact can be effectively monitored and managed.

The Pact op Zuid organisation has indicated an interest in JESSICA. This could be an opportunity for them to also attract additional investment from parties other than housing associations, primarily project developers and institutional investors. In the Pact op Zuid case, there is clear potential to link the current investment with ERDF and JESSICA contributions, but there is also considerable scope for JEREMIE and ESF funding.

Public failure in urban renewal and added value from JESSICA

Although various sources of funding for urban renewal projects, both public and private, exist in Holland, the case study provided evidence that public sector money is still needed to address specific cases of market failure. In short, substantial public sector investment and subsidies are often necessary for the successful launching and completion of the regeneration process and the effective delivery of community benefits.

Public sector money is often needed to overcome ‘profitability gaps’ and to facilitate project implementation. This involves issues such as the acquisition of land/buildings, site decontamination, social housing, (public) parking provision, provision of urban infrastructure, the creation of public spaces and green areas/parks, water, the development of socio-cultural facilities etc. Furthermore, some elements requiring public funding might have an important effect on the value of the regeneration programme as a whole, but frequently generate substantially lower revenues than some other project components. Examples include investments in safety and livelihood, social activities and investments in business space for small and medium-sized enterprises (SME). In addition, the investments needed upfront are usually relatively high while benefits, either those of the project itself or broader based
societal externalities such as improvements in the quality of life, increased social cohesion, environmental quality, increased mobility, etc. tend to develop only over time. This time lag needs to be financed.

Given the availability of public, semi-public or even private investment money for urban regeneration in the Netherlands, the case study suggested a role for JESSICA not so much as a project enabler, but as an accelerator for eligible urban regeneration projects. In this respect, JESSICA might trigger a higher multiplier, by creating a more favourable investment environment for the private sector. Another advantage might be the creation of actual revolving funds that truly safeguard investment streams directed at specific localities/objectives.

JESSICA is expected to provide advantages to both private and public sectors. The interest of private parties may be raised if UDFs could provide loans at more favourable terms than regular commercial banking loans, or even more so if any kind of loan or equity participation could be combined with grants. In such cases, grants could be used to cover part of the non-profitable investments and loans/equity could be used to finance those parts of the project that raise only long-term benefits. In this respect, JESSICA loans could be used as preliminary financing to get a project started. If projects are not able to recover the money themselves (e.g. as is often the case with basic infrastructure), government should be allowed to pay the money back with revenues from other sources.

Besides debt or guarantees, subordinated loans or even equity participation could be of more interest to private sector participants. Either risk reduction (through loan guarantees), risk diversification (as in subordinated loans by the holding fund towards a UDF) or risk sharing (as in equity participation by the holding fund in a UDF), would increase the interest within the private sector to participate in a specific UDF for an urban regeneration project or programme. Subordinated loans might very well lower the risk for participating commercial banks and therefore lead to more favourable interest rates.

One of the disadvantages of ERDF grants is the time lag between investment and the reception of the grant. This poses a problem, especially for non-government actors, because of the need for upfront investments. One of the advantages of JESSICA is that the money can be received early, reducing the financial burden of these time lags. According to the study, an important catalyser in its own right might be the involvement of both the European funds and the European institutions, as this is likely to raise the priority of projects for local and regional authorities and could also raise levels of trust in the private sector.

There seem to be many opportunities for combinations of JESSICA and JEREMIE actions. Within the National Strategic Reference Framework and the Regional Operational Programmes, investments in both SME development and urban development in terms of transport and infrastructure, business space, commercial amenities, land redevelopment etc are often foreseen, in the same localities.

**Issues to resolve to take the initiative forward**

One of the main risks for the successful implementation of JESSICA in the Netherlands is the fact that many of the ERDF contributions have already been allocated to different Operational Programmes, so that little is left for UDF contributions.

The consultants also highlighted fears within both private and public sectors about issues of State Aid, so it will be important to provide clarification. As far as eligibility issues are concerned, the consultants felt that, if holding funds or UDFs were required to ring-fence their
loan or equity participation to discrete elements of plans or projects, JESSICA would lose much of its potential effectiveness because of the resulting administrative requirements.

The Dutch ERDF urban regeneration programmes (notably the URBAN I and II) have a history of coming up to speed relatively slowly. This would make it important to allocate JESSICA funds explicitly and early, especially with regard to the N+2 regulations. The consultants felt that, demanding that money within UDFs be recycled once within the programme period would be very difficult to achieve, given the average duration of urban regeneration projects. Finally, there was a feeling that it was important to distinguish between for the use of JESSICA for major projects and smaller projects. The suggestion here was that to cater for smaller projects, framework loans and/or investment vehicles could be used, to be managed by the requesting local authorities.

Importantly, the feedback of the study is that, in Holland, several major urban regeneration projects have expressed interest in acting as “pilots” or case studies for the implementation of JESSICA. These include both the Rotterdam ‘Pact op Zuid’ programme and The Hague Binckhorst redevelopment project. In this regard, it might be appropriate to develop a business model for implementation with the public and private parties involved.

An efficient organisation is an important prerequisite. Working along the lines of the Dutch organisation of their ERDF programmes, the consultants felt that organising four regional holding funds (e.g. West) would be appropriate with either UDFs at municipality (e.g. Rotterdam) level or, preferably, an urban area level (e.g. Rotterdam Pact on South, the Hague Binckhorst, Amsterdam Westelijke Tuinsteden etc).

In the opinion of the consultants, engaging a promoter for JESSICA is advisable. Their research has shown that to some major investment companies are already interested in activities regarding holding fund management and/or management of urban development funds. The engagement of a respected market participant, with an extensive network of public and/or private financing activities within urban regeneration in the Netherlands, might offer interesting opportunities in terms of marketing and increasing the use of the JESSICA instrument.

**Comments**

Although various sources of funding for urban renewal projects, both public and private, exist in the Netherlands, the case study provided evidence that public sector finance is still needed in urban regeneration to overcome specific market failures. In this respect, the analysis tends to suggest that Holland is a good market for JESSICA, although its role could be envisaged more as that of accelerator for urban regeneration projects rather than that of enabler of investment. In this respect, JESSICA might trigger a higher multiplier, through actually creating a more favourable investment context for private parties. The potential benefit of holding funds in the Netherlands context is questionable, although the consultant suggested that engaging a promoter for JESSICA might prove beneficial.
4.4 Italy

Introduction

The Italian analysis included case studies of urban environments with sponsors particularly active in the drawing up and implementation of integrated development initiatives. In the absence of any formal UDFs, the consultants employed simulations to consider the feasibility of JESSICA-type financial mechanisms in different cities in different Italian regions.

General market characteristics

Because of its long history as a fragmented country, Italy is characterised by strong local identities and by a complex but relatively balanced polycentric urban structure and regional urban networks. The “Urban Renaissance”, a process started in early 1990s with the introduction of a new local electoral system giving more powers to the mayors and to the concept of integrated planning/programming procedures, is now gathering momentum. In addition, a number of programmes and measures at both the national and regional level aim to address urban problems stemming from the North-South divide, which still represents a key feature of Italy’s socio-economic profile. While the cities in the Centre-North often suffer from problems such as housing shortages, congested modes of transport and pollution, many of the cities of the South have had to face social problems of poor and deprived neighbourhoods, and the loss of population.

An administrative and political devolution process is underway in Italy. Following amendments to the Constitution (2001), Italy’s 20 regions (Regioni) have become the institutions in charge of regulating planning activities at the local and regional level. A national framework law concerning the urban sector is still missing, although two bills are to be discussed in the Parliament shortly. In recent years, planning procedures have been simplified and made more flexible. Since the early 1990s, integrated urban regeneration/renewal plans have been co-financed with substantial public grants, mainly through national initiatives promoted by the Ministero delle Infrastrutture, the so-called Programmi Complessi. As part of the overall effort to rehabilitate state finances (Maastricht parameters), state grants for the urban sector have been cut considerably in recent years.

Following the recommendation from the Commission, Italy has coordinated the programming of the Structural Funds with the programming of national funds earmarked for Cohesion Policy, so-called FAS (Fondo Aree Sottoutilizzate) which provides financing for projects and initiatives on the whole of the national territory, but, whose main objective is to fill the development gap between the Centre-North and the South. In 2007-2013 Italy will receive Structural Funds amounting to approximately EUR 25 billion, while the FAS for the same period amounts to about EUR 60 billion. Overall, the budget of Italy’s NSRF for 2007-2013 (Structural Funds, national co-financing and FAS) will approximate EUR 100 billion.

The financial resources earmarked for the urban sector by the NSRF are potentially sizeable, but mainly destined to be spent in the Regioni of Southern Italy. 7.2% of the budget is allocated to the “Competitiveness and Attractiveness of Cities and Urban Systems” priority. Indirect investments benefiting the urban sector will presumably also come from the budget of other priorities such as “Networks and Mobility” (17%), “Production Systems and Employment” and “Social Inclusion, Quality of Life, Safety”. The Regions will manage the financial resources earmarked for the urban sector within the NSRF, with those of the South receiving the bulk.
Funding sources and PPP experience to date

The decentralisation process in Italy has seen cuts in the level of financial transfers from central government to the regions, resulting in substantial reduction in the “own-resources” available for investment, including in the urban sphere. In the event, Italian cities borrow heavily to finance investments. Preferred borrowing mechanisms are the issue of local government bonds and the raising of bank loans (mainly Cassa Depositi e Prestiti, Dexia Crediop or EIB framework loans).

The STU (Società di Trasformazione Urbana), effectively a public-private venture between a local government body and private partners, is currently the model for fund-based investment in the urban sector that is closest to a UDF. The STU mechanism was facilitated by national legislation over 10 years ago, with the objective of implementing a programme of urban transformation, but very few STUs have actually been set up. This is mainly because of the local administrations’ general lack of entrepreneurial and negotiating skills, the civil servants’ general reluctance to adopt financial mechanisms that are both complex and flexible, and their inability to manage relationships with a variety of private partners.

Other forms of PPP have proved more popular, particularly the so-called “Project Financing” (similar to UK’s PFI), but mainly for the development of infrastructure of public facilities. Project Financing schemes have so far been used mainly for simple operations that guarantee very safe returns. Only recently have PF schemes been tested, with reasonable success, as a financing mechanism for complex, integrated urban operations. Good practices in this respect are mainly to be found in larger metropolitan contexts, like Turin, Rome, Milan and Bologna, where the conversion of derelict urban areas has been (and is being) achieved thanks to complex and innovative financial arrangements.

As one of the reasons for the slow uptake of PPP structures, the study has highlighted the lack of awareness of the fact that public resources available for investments are extremely scarce and that local governments alone cannot provide the improvement in public services that local communities increasingly demand and need to achieve higher environmental standards and levels of competitiveness. In addition, the consultants noted that local authorities in Italy rarely look for private partners outside their local/regional context because civil servants and politicians feel more comfortable dealing with “known” local investors. In order to improve negotiation, communication and financial engineering and managing skills in Italy’s small- and medium- sized cities, the study recommends instituting training programmes for public officials.

The Case Studies

TERNI: The city of Terni is strategically located at the intersection of the important north-south transport corridor Rome-Venice. The Commune has for many years pursued the objective of reconnecting the urban fabric and overcoming the fragmentation caused by the presence (still today) of heavy industry within the city. Although the former industrial sites along the river have already been regenerated and brought back to life with new activities, the city’s strategic plan highlights the development of the Città dello Sport project as crucial to the creation of sports facilities and green areas for Terni. The whole operation would entail a mix of new build and revamp of existing facilities.
Terni has developed considerable experience in the field of integrated planning. The city has implemented a number of regeneration operations consistent with a general long-term masterplan for the enhancement of its assets, and for the improvement of its overall attractiveness and competitiveness. The Commune is nevertheless clearly not capable of carrying out such an ambitious operation with its own financial resources. The constitution of an UDF for the development of the area could be a viable option. Terni could turn ERDF money earmarked by Umbria region for urban sector investments into equity, although the amounts may not be significant. More interestingly, the Commune could turn into UDF equities its real estate assets in the area.

NAPOLI EST: The case of Napoli Est, a large former industrial precinct ready for conversion, shows a very clearly defined regeneration process with potentially enormous positive repercussions on the whole of the Eastern part of Naples’ metropolitan area, one of the country’s most deprived urban localities. The operation, although promoted by the public administration (Commune of Naples), has so far been structured in such a way that it could be economically viable, financially self-sufficient and have a high level of sustainability in the environmental and social sense. The whole operation requires a strong commitment from both the public authorities and the private economic players. The City of Naples has access to considerable ERDF resources and other national grants, while the private players are mainly multinational oil companies that could start investing immediately. In addition, the main landowner of Napoli Est has recently signed a memorandum of understanding with the Commune concerning the guidelines for the development of this area.

Future urban transformations planned for Napoli Est could theoretically be implemented with the help of JESSICA’s financial mechanisms. Nevertheless, due to the area’s specific socio-economic situation, Naples’s municipal government has ruled out the constitution of an urban transformation company (very much like an UDF structure) for the transformation of Napoli Est, showing that in some local contexts JESSICA mechanisms might not be suitable for carrying out ambitious regeneration operations even if they make financial sense.

BENEVENTO: The city of Benevento is a nodal point of increasing importance in the transport system of Southern Italy and it will soon host the new High Training Institute for magistrates of Southern Italy. The city has invested heavily in innovative initiatives for urban and regional regeneration, often establishing strong partnerships with other local public bodies. It has taken part in all of the initiatives launched at the national level for the promotion of integrated regeneration programmes. The main urban project currently in preparation is of great importance not only in view of the regeneration effort that it entails, but also in terms of the improvement of the city’s connections with its surrounding region and with Naples’ metropolitan area. While some of the financial resources for this major operation have already been allocated in the form of public grants, the overall context is particularly suitable for the trial of JESSICA in Southern Italy. JESSICA-related mechanisms could really be perceived as a means to multiply the effects of structural funds and state grants.
The presence of good practice in the Convergence Objective are of fundamental importance for the future diffusion of JESSICA in the regional contexts that still have access to substantial public grants.

Potential for JESSICA and various implementation scenarios

The demand for financing mechanisms like JESSICA in the future is potentially great in the Centre-North (Competitiveness an Employment Regions) where the consultants see local government as having generally stronger, more pro-active administrative structures and where very little public funding will be available for investments in the urban sector in the new programming period. Local authorities are generally smaller in the South (Convergence and Phasing out Regions), where large amounts of public grants will be made available from both the Community and National Cohesion Policies and where local administrations are less accustomed to experiment with forms of “recycling” of public investments. Nevertheless, there too particularly active municipal governments with ambitious urban development agendas could show a special interest in JESSICA’s financing mechanisms.

Considerations regarding the state of the art of the urban sector in Italy lead to the identification of a few possible operational models for the efficient introduction of JESSICA procedures in the country. All the following desirable scenarios require a national coordination of JESSICA at least in the “trial phase” in order to be effectively implemented. The scenarios are presented starting with the one that at present seems the most feasible and ending with the one that, although potentially desirable, appears hardest to achieve.

The first operational hypothesis consists in identifying urban integrated action programmes already incorporated in one of the Operating Programmes. UDFs would be created by using the financial contributions from all the related National OPs as equities. Using several OPs as a source of financing for JESSICA programmes would be a way to increase the concentration and integration of Structural Funds spending (which has unfortunately been rarely achieved in Italy). This scenario could be implemented relatively quickly. Following a successful test of this operational model, the managing authorities of the National OPs could decide to create a National Holding Fund (collecting OPs’ resources for projects with an urban impact) from which future UDFs would stem.

A second scenario consists in transforming some of the urban programmes supported by Di.Co.Ter. (Department for the Coordination of Territorial Development of the Ministry of Infrastructure) and currently underway into proper JESSICA programmes. This scenario is not an alternative but, rather, complementary to the first one and could be implemented just as quickly. Initiatives like Porti&Stazioni (national programme launched in 2000 with a specific aim at the regeneration and conversion of areas adjacent to ports and railway stations) or Urban Italia operating in the same urban areas should be merged into new larger integrated plans also including a carefully selected set of additional revenue producing projects, in order to create sound JESSICA programmes. Porti&Stazioni or Urban Italia grants not yet spent could be turned into equities for the creation of the UDFs. Alternatively, Di.Co.Ter. could draw up JESSICA programmes in collaboration with the cities entitled to the direct management of Structural Funds in 2007-2013, and also where appropriate with the cooperation of the managing authorities of other National OPs. This scenario would probably require a longer time for implementation.

A further scenario entails the creation of UDFs with the contribution of financial resources from both National and Regional OPs. This scenario takes into account the possibility that the Regioni (or some of them), might decide to take part in the trial of JESSICA. The Regioni
in the Competitiveness and Employment Objective areas, on the other hand, are more likely to find JESSICA’s mechanisms appealing, pushed by the need to make the most of the relatively modest level of Structural Funds to which they will have access. Furthermore, many urban areas in the Centre/North feature environmental characteristics particularly suitable for the trial of JESSICA: generally good level of administrative capacity, buoyant real estate market, presence of former industrial sites (often state owned) ready for conversion in semi-central city areas.

There is also the possibility that the Comuni willing to promote JESSICA programmes contribute to the creation of UDFs by transforming some of their real estate assets into equities. In this way the Comuni would be able to play an important part in the drawing up and in the management of the JESSICA programmes they are involved in, even when they do not have direct control over the expenditure of Structural Funds.

Other options, although theoretically possible, seem on the whole very hard to pursue. The creation of a National Holding Fund collecting the share of all the Regional OPs earmarked for the urban sector seem highly improbable at this stage. It is of course, in many ways, an ideal scenario that would ensure maximum efficiency in the expenditure of Regional OPs resources. Unfortunately, it is an arrangement that the Regioni are not likely to accept, as they would probably perceive it as relinquishing part of the control they have over the Structural Funds (as managing authorities) to a national or EU authority.

**Recommendation for a trial phase**

The study stressed that, whatever operational models prove the most efficient in the long run, it is strongly advisable that, prior to the proper introduction of JESSICA, a carefully structured trial phase should take place, given the consultants’ view that Italian local public administrations rarely show the capacity to manage complex financial mechanisms. In addition, public administration bodies tend to find it difficult to conceive public investment as potentially productive investment, capable of generating additional financial resources to reinvest in public infrastructure and services. This is particularly true in the Regioni of Southern Italy where for decades the abundance of public grants has made any form of “recycling” of public investments completely unnecessary.

One of the main objectives of a JESSICA trial phase should be that of producing successes. In the Italian context, the availability of national best practise is very likely to start a “virtuous emulation” process. A careful selection of the localities to involve in the trial phase appears to be necessary. These urban localities should be characterised by:

- good institutional capacity and dynamism (and should be ready to adopt innovative practices);
- excellent planning capacity (and have a portfolio of interesting projects ready for implementation); and
- the availability of urban areas to redevelop with integrated plans that can be financed exploiting JESSICA’s mechanisms.

The trial phase should be structured as an initiative with very high profile. This is of paramount importance in order to break cultural resistance and scepticism that could seriously undermine the effectiveness of JESSICA in Italy. The task of coordinating the initiative ought to be assigned to an institution with clear and unambiguous experience in the field of urban policies and urban regeneration/renewal. The most suitable candidate for this role is the Di.Co.Ter. (Department for the Coordination of Territorial Development of the *Ministero*
Delle Infrastrutture-MII. Di.Co.Ter. has launched and managed all the most important initiatives promoting innovation in the urban sector, including the CI URBAN I and II, which in Italy have had a very positive impact.

Comment

The review of the Italian market suggests that the demand for financial engineering instruments such as JESSICA is potentially significant, particularly in those regions and cities where local authorities are generally more powerful and pro-active, and have comprehensive urban development agendas. The consultants strongly favour the idea of early pilot projects to both test the initiative in practice, and to provide quantitative indications of the perceived need for technical assistance and training of public servants to drive the initiative forward. The pilots would also serve as test cases in the development of exemplars for replication across the country. In terms of UDF organisation, the study suggests that certain existing public bodies and other agencies could easily be customised to perform the necessary functions.

4.5 Spain

Introduction

The Spanish study included an analysis of the urban sector and a review of Catalonia and the opportunities that JESSICA might afford at the regional level in a country with such a highly decentralised/devolved administration. The study included an inventory of existing vehicles for intervention in the region’s urban sector and, in the absence of UDFs, suggestions as to how these vehicles might be modified/customised to satisfy the requirements of the regulations to facilitate exploitation of the initiative.

General market characteristics

Although population growth in Spain’s urban centres has abated in the recent past, pressures nevertheless persist, placing excessive demands on existing urban infrastructure and natural resources, especially as regards urban transport systems, land resources, and water supply and waste management. Meanwhile, the extraordinary increase in house prices has led to social problems and increased social segregation. Central and regional governments have plans to increase investment in social and affordable housing for low-income people. Indeed, public budgets for social housing have been increased in the recent years. In addition, municipalities are under a lot of pressure to allow the construction of new residential neighbourhoods in greenfield areas, and there are a lot of such construction projects with potentially adverse effects on the environment. This situation is unsustainable in the long term, and renewal projects will have to take the majority of the investment in the future.

The construction and tourism sectors have played a central role in Spain’s recent economic growth. In fact, construction represents more than 10% of the Spanish GDP; and in some regions it goes up to 18.5%. Spain’s residential building market has experienced an outstanding growth due to low interest rates and a booming tourist industry. The increase in the construction of dwellings has been spectacular: Spain built more dwellings in 2004 and 2005 than France, Germany and the UK combined.

Spain has traditionally been a net recipient of monies from the EU. In the period 1986 to 2005, the country benefited from a total net contribution of EUR 78,131 millions. The EU funds represented a 0.8% of annual GDP, contributing to boosting the growth of the Spanish
economy, increasing its competitiveness, facilitating infrastructure modernisation and promoting convergence within the Union. In the programming period 2007-2013, Spain is set to receive over EUR 31.5 billion in Structural Funds.

Institutional and regulatory framework

The Spanish Constitution (1978) established the Autonomous Provinces with high levels of self-government. As a result, Spain is nowadays a very decentralised country, with three levels of administration each with varying degrees of autonomy. As an illustration of the decentralisation of responsibilities from central government to other administrative levels, it is noteworthy that, while the central government was responsible for 76% of public expenditure in 1985, in 2003 this figure fell to some 50%. The devolved administrative structures have however been responsible for administrative fragmentation and lack of coordination among different government tiers, making the implementation of integrated approaches in strategic planning and implementation all the more difficult.

Most urban developments in Spain are under the exclusive control of local authorities, which are also responsible for their implementation. Only in certain cases, such as the Olympics in Barcelona, the Expo 92 in Seville, or the America Cup in Valencia, has the participation of the central government been significant. However, there are several national/regional programmes, which enable project financing at the local level.

Local government finance and funding sources for urban development projects

The financial situation of many cities is constrained as central and regional government collects most taxes. Grants and local taxes provide the substantial part of funding of local authorities. Meanwhile, although professional staff in municipalities are usually experts in urban planning, they rarely have a deep knowledge or understanding of financial instruments. Against this backdrop, the demand for financial instruments for urban projects is very high. For most of these projects financing is a key issue, as public administrations (especially municipalities) are unable to contribute the necessary funds in a reasonable time frame. Most operations are based on debt, and one of the problems is to provide financial guarantees to these projects. To avoid financial restrictions, some have created ad-hoc entities to develop certain areas (Procivesa in Barcelona for the Old Quarter, Promusa in Sant Cugat), but usually municipal companies only act in residential promotions for young people or in social or protected housing.

There are several financial structures established recently in Catalonia, which facilitate investments at the local level. One such example is PUOSC (Pla únic d'obres i serveis de Catalunya, Works and services plan for Catalonia). This is the main tool of economic co-operation with the towns of Catalonia, with the government earmarking EUR445 million for town councils for the 2004-2007 period. These resources will help town councils to carry out works and create infrastructure in their territory, lending particular priority to those of collective social interest. Additionally, in 2006, towns will receive over EUR80 million from the Generalitat through the Local Co-operation Fund of Catalonia. There is no condition attached to the resources transferred to towns and they will serve to endow local organisations with financial independence and the means needed in order to exercise their powers.

Financial engineering is used very often in the private sector, but not so often in PPPs projects, at least as it is understood in JESSICA. In summary, for the development of urban projects there is in Catalonia and Spain a lack of financial resources and a limited number of fund sources. However, there are many projects in Catalonia that could qualify as integrated
urban renewal and development projects: in Tarragona, a world heritage city, in Girona (in
relation to the new TGV station), and in many other towns with attractive centres or well-
defined social problems (notably due to the high immigration of the past few years).

There are financial institutions – public and private - which provide loans, equity and
 guarantees for the financing of projects. In the public realm, examples include ICO (Instituto
de Crédito oficial, Official Credit Institute) or ICF (Institut Català de Finances, Catalan
Institute of Finance), both public entities whose mission is to provide financing to the private
sector. Private-sector institutions of interest include ENISA, a company which funds business
expansion projects by means of participating loans, or Litexco, a company which invests in
development businesses of any sector at the initial stages. Most of these institutions are
however focused on new business development, technology and innovation of urban
enterprises, and the examples of the study did not point to any organisation whose mission
would be more specifically aligned with investing in integrated urban development projects.
The notable exception is ADIGSA (see the box below).

**Example of urban project financing through a public institution in Catalonia**

Administració, Promoció i Gestió S.A. (ADIGSA) is a state company owned by
the Generalitat de Catalunya (Government of Catalonia) and its activities come
under the housing and land-use policy of the Departament de Medi Ambient i
Habitatge (Department of the Environment Housing Department). ADIGSA
began its work in June 1985, with the transfer of 60,000 homes built by the State
prior to 1980 and divided between 201 developments in various districts around
Catalonia. Between 1985 and 2000, nearly 75,000 million pesetas were spent on
rehabilitating and repairing public housing and housing estates, and on corrective
and preventive maintenance of items such as sewers, lifts, fire extinguishers, etc.
Since 1985, more than 77,000 homes have been administered of which nearly
69,000 were sold off and the rest rented out. The geographical distribution of the
housing is marked by the importance of the Barcelona metropolitan region, where
almost 50% of it is to be found, mainly in the counties of El Barcelonés, El Baix
Llobregat and El Vallès Occidental.

ADIGSA has also taken part in various partnership agreements with the
administered districts, to put in place development and community programme
participation plans involving the associations and residents of each district. These
agreements are geared towards fostering social integration and cohesion, so as to
continue with processes of remodelling and of active participation by the network
of local associations in the renewal of the districts.

Historically it has been necessary to prioritise the most urgent actions in each
district in order to be able to make progress in all of them based on the annual
budget available for building work and in compliance with the pending building
work programme. ADIGSA's operating system for achieving its objectives has
also to take into account the need to normalise and integrate the administered
districts into their respective municipalities and into the country as a whole, along
with the sustainability and viability of the actions taken both by ADIGSA itself
and as part of its social, employment and community partnerships, so as to
provide added value and maximum competitiveness and performance in the
public management of the 21st century.
The potential for JESSICA in Catalonia

Given the characteristics of the system as described in the above, the consultants have felt that, in the Catalonian context, the main attraction of JESSICA will be its capacity to fund projects that probably would not have been funded in the absence of its mechanisms. In other words, the establishment of UDFs could be very useful in Catalonia to boost the feasibility of many urban projects that lie on the cusp of feasibility. The character of UDFs as a revolving engine makes them very attractive as a tool to combine public and private investment. UDFs could be used - in a context of fiscal austerity - for the financing of large public projects using public-private partnerships (PPPs). Overall, UDFs seem very interesting for Catalonia in order to regenerate neighbourhoods, towns and regions.

From the public sector’s point of view, there are two major attractions. First, PPPs and other types of projects that could be financed through a UDF structure would enable an authority to leverage additional finance without recourse to fiscal means. Second, they split the costs and risks of projects between the public and private sectors, tapping into the expertise and economies of scale available in the private sector that are rarely exploited for public policy. The key issue in assessing the use of UDFs is whether efficiency and effectiveness have increased.

At the same time there are certain risks, requiring appropriate safeguards to protect the public interest. In particular, there are likely to be asymmetries of information and of commitment between the different parties of the agreements. Local public authorities need guidance and, as far as is practicable, standardised processes for selecting and operating PPPs. This help does not only concern respect of competition regulations but also the steps to be followed to identify the best partner, evaluate the effectiveness of the PPP option, and diffuse information to other local jurisdictions. UDFs could provide the necessary financial and/or technical supports for the analysis and development of PPPs, creating enabling environments for the private partners’ finance.

The consultants have deemed the promotion of UDF creation as the first stage for effective implementation of the JESSICA initiative in Catalonia (and Spain). In this context, a Holding Fund Manager, in close cooperation with national and regional authorities, could play a key role carrying out the work of identifying UDFs that would then invest in eligible urban development plans and projects. Once urban development plans/projects are selected, the HF Manager should carry out technical, economic and financial evaluations of these, in order to evaluate their efficacy in the context of establishing a UDF or how the Holding Fund could participate. To carry out these tasks, the consultants proposed that a Holding Fund Manager be appointed potentially through an agreement with the EIB.

Comment

The review of the market in Catalonia suggests that UDF structures could provide the necessary financial and/or technical support for the development of PPPs, creating enabling environments for private financial investment. It argues that the main attraction of JESSICA in Catalonia will be to increase the feasibility of urban projects on the cusp of commercial viability. UDFs could be used, in a context of fiscal austerity, for the financing of large public projects using public-private partnerships (PPPs). The study suggested that the Holding Fund Manager role, in close cooperation with national and regional authorities, would be very useful for carrying out the work of identifying and developing UDFs that could support integrated urban development plans and projects. To carry out these tasks, the consultants recommended the establishment of a Holding Fund Manager.
4.6 Hungary

Introduction

The Hungary study included analysis of a number of constraints on both the demand and supply side for successful development of integrated urban development projects. Despite the significant role of municipalities in urban renewal efforts in the Hungarian context, the sector is facing considerable problems regarding investment funding. In addition, more often than not, existing local government structures do not adequately support the necessary cooperation between various professions involved in the development of complex urban development projects e.g. property and real estate managers, urban planners and regulators, local government and company finance experts etc. The country’s experience to date with PPP projects implemented within the framework of government-sponsored programmes, also points to some potential difficulties in implementation.

General market characteristics

The urban structure of Hungary is characterised by the dominance of a single large city, Budapest, followed by a relatively evenly distributed hierarchy of secondary and tertiary cities, small towns and villages. The effects of urban policy during the period of “planned economy” - which primarily used industrial policy to decentralise the concentration of the economic power of Budapest by locating new industries and housing construction in less developed regions - proved disastrous as many of the decentralised industries turned out to be non-viable and their workforce unemployable in the market economy. Today, many ‘secondary’ cities embed a glaring contradiction between an attractive urban environment and a handicapped economic base.

Key issues in the urban realm in Hungary presently include: (i) a run-down housing stock; (ii) spatial segregation by income and social exclusion of the Roma population; (iii) traffic congestion and inadequate quality of urban transport; and (iv) environmental problems and land contamination in brownfield areas. The large stock of pre-fabricated housing estates represent a particular challenge due to their run-down appearance, high running costs given poor energy inefficiency, and the fact that most of these apartments have been privatised without a clear maintenance policy or the financial capability of the new owners to maintain or renovate the buildings.

The Hungarian case study pointed to a number of shortcomings impeding investment in urban renewal projects. These include the lack of quality integrated urban projects, weak cooperation between municipalities and the private sector (especially as regards effective PPP projects in urban development), the lack of a value-creating approach at the municipality level, and cumbersome and drawn-out planning procedures. In addition, weak financial management and the lack of information about financing options at municipal level have, at times, combined with the fact that grant and co-financed based projects have unduly gestation periods and insecure funding outcomes. Meanwhile, such problems have been exacerbated because municipal real estate public assets (generally used to finance parts of urban renewal programmes) have already been depleted through privatisation.

It is of note that the Community Support Framework for Hungary 2004-2006 already implemented a number of measures that, using support from the European Regional Development Fund (ERDF), focused on the problems of urban areas facing difficulties, as well as disadvantaged social groups. In the new programming period 2007-2013, Hungary is entitled to receive EUR 22.4 billion of development funds (at 2004 prices) from the cohesion
policy of the EU, which is to be supplemented by domestic co-financing and private capital. The seven Regional Operational Programmes, developed in co-ordination with Hungarian Ministry of Local Government and Regional Development and the National Development Agency, explicitly incorporate urban development elements, and set forth the importance of developing an integrated approach to urban intervention.

**Demand related issues**

The Hungarian case study has underlined that, although spatial physical planning has a long tradition, Hungary has so far not developed a national urban policy document nor have urban issues been clearly imbedded within other national or regional policies. While the elaboration of local physical plans is mandatory for each settlement, only a limited number of cities have urban development strategies. Moreover, while the institutional and legal background in Hungary is well developed, the regulatory function of planning is often overemphasised and bureaucratic in nature.

Since the transition, the bulk of planning power has been concentrated at the local government level, leaving the State with a much smaller role (except EU-related planning at the national level) and the regional (NUTS2) level. Although municipalities play a central role in solving urban issues, they are often forced to prefer short-term goals due to a lack of resources, e.g. the maintenance of local public institutions. In addition, the experience of addressing and/or managing urban development issues in an integrated fashion is still lacking in most Hungarian cities, as tasks are mostly divided amongst different departments. In somewhat more favourable cases, an independent urban development office is sometimes set up within the municipality and there are only a limited number of examples in which municipalities charge external urban development enterprises with the management of urban development actions and projects.

Hungary’s urban priorities for the 2007-2013 period centre on a balanced regional development framework through the establishment of a balanced polycentric network of cities, as well as on the need to facilitate the cities’ economic restructuring while enhancing the quality of urban life. In particular, the ‘Poles of Development’ programme places special emphasis on the improvement of the pulling power of Hungary’s eight regional centres (Budapest, Szeged, Debrecen, Miskolc, Pécs, Győr, Veszprém, Székesfehérvár). Implicit in the strategy is the achievement of a more balanced residential and business community mix, with increasing potential for using public sector money to leverage private capital and vice versa.

In the assessment provided by the consultants, the involvement of specialised financial institutions, such as the EIB, in the current process of elaboration of the action plans for the Regional Operational Programmes, would be beneficial, as it would provide an opportunity to incorporate innovative approaches for integrated area-based urban renewal actions.

**Existing sources of funding and their limitations**

As far as the availability of the supply of financing is concerned, the case study offers evidence that funding sources for municipal infrastructure programmes (including urban renewal) are mostly provided in the form of State grants and loan products for municipalities at relatively favourable terms. For the later, there is a significant competition among commercial banks, as well as from the Hungarian Development Bank (MFB), the State development bank.
The fact that their constrained financial base is often exacerbated by their broad range of compulsory tasks and frequent changes in the local government financing system, has made Hungarian local authorities predominantly grant oriented. Indeed, a multitude of public programmes and initiatives, such as regional equalisation and development grants defined annually by Parliament, contribute to partial financing of municipal urban renewal actions. In addition, the Ministry of the Interior established a so-called “Structural Fund - Own Contribution Fund” that provides own-fund contributions to qualifying municipalities, thus permitting programme financing entirely through grants (both EU and State).

MFB has also developed a number of initiatives targeting municipal infrastructure investment. Indeed, MFB's municipality loans, such as the Municipal Infrastructure Development Loan Programme, account for approximately 21% of the volume of municipality loans from the banking sector, and enable Hungarian local authorities to apply for preferential-interest loans with up to a 20-year maturity for infrastructure development and investment activities. The international financial institutions, including CEB and EIB, are also participating in urban renewal and urban development in Hungary, through the provision of loans co-financing investments in this sector.

One of the messages of the case study was that the Hungarian municipalities should find ways to more actively involve the private sector in the planning, financing and implementation of their urban renewal programmes. According to the case study, the main obstacles in this respect stem from the weak communication between public and private sectors. For example, while more than one tenth of Hungary's GDP is spent by local municipalities, the number of commercial banks dealing with loans to municipalities is low and therefore the market is very concentrated. This situation is not helped by limits on debt based on own-income of municipalities stipulated by law, so that currently only several hundred of the more than 3200 Hungarian municipalities are able to take commercial loans.

There are some additional missing elements on the supply side. Because commercial banks can only finance municipalities through public procurement procedures, they are not interested in project development. At the same time, banks maintain that the quality of project elaboration is still weak at municipal level, especially compared to well-designed and financially sound project applications submitted by the private sector. Furthermore, there are no real equity providers as they still find urban regeneration too risky to invest in, especially given the long project implementation timetable compared with, among other risks, the 4-year political cycle. Finally, there is a dearth of specialised intermediaries, as well as lack of revolving funds.

As far as private developers are concerned, it seems that there is low potential for “socially responsible investments” in Hungary at present, as low-cost developments were delayed or cancelled in the recent past, with developers focusing more on higher-quality inner-city housing in the capital and in the secondary cities. Private developers are also mostly debt financed, either through a short-term construction loan, where the subject of eligibility is the borrower (i.e., developer company), or through project-financing loans, which are medium-term and where the eligibility criteria include the projected cash-flows and the internal rate of return of the project.

Experience with PPP and similar structures

As already pointed out, the number of good examples in Hungary of large, area based (neighbourhood) renewals or implementation of complex, mix-used development programmes in a PPP construction is limited, and each case shows a different organisational and financial background. The most important common characteristic is that development is controlled by
the public sector, based on a cooperation agreement between the public and private sector about the development programme. In order to introduce investments implemented through a PPP structure, in 2003 the government launched several programmes in order to help with the implementation of such projects. It has also undertaken to disseminate the knowledge on and information related to the respective PPP schemes once launched.

PPP projects have typically been implemented according to a design-build-finance-operate (DBFO) model, as green-field investments, whereby the line ministry concerned contributes to the payment of service fees during the entire period (generally 15 years). Increasingly, the so-called “settlement-planning contract” is also used, binding the developers to finance the adjacent and necessary developments (public utilities, roads, public spaces) and preparatory costs (mainly planning). Given the high value of these investments, credit institutions primarily provide for financing in a consortium form with risks, given government implicit support of the PPP initiatives, mainly reflecting the long-term of project implementation and the complex nature of the development by a number of disparate parties.

Municipalities have expressed interest in construction projects to be implemented with PPP schemes but a number of uncertainties persist. Municipalities find it difficult to make long-term plans due to central government’s frequent changes in the make-up of the municipal financing system. As investors remain mostly interested in large investments and bigger cities, the majority of Hungarian municipalities may not be able to rely on private capital. In cases where private investors take part in the implementation of infrastructure and related developments required for the fulfilment of mandatory municipality tasks, it remains fundamentally important to clarify the extent to which they assume the risk of these developments and whether a governmental guarantee would be required (and, given the state of central government finances, perhaps not given).

Experiences from PPP projects implemented up to now within the framework of government sponsored programmes point to some difficulties, such as the fact that: (i) PPP constructions are often proving to be too expensive; (ii) projects are in part poorly prepared; (iii) decision processes are slow and complicated; (iv) there is a lack of coordination of legal and financial settlement regarding public procurement (equipment procurement, financing, services in a single tender and agreement); and (v) interest by the private sector is only aroused slowly, with involvement, primarily, of large construction companies.

---

**The SEM IX Model — An example of the innovative partnership structure in Hungary**

Budapest’s District IX devised, in 1992, a new scheme, a joint-stock non-profit company called SEM IX Rt. (70% retained by the municipality) for the rehabilitation of Középső-Ferencváros, an area characterised by a high percentage of low-income Hungarian and Romani households and the run-down physical condition of the building stock. The municipality separated some activities related to the rehabilitation, such as the management of demolition and slum clearance, the development and upgrading of infrastructure, and the sale of the “ready” plots, and entrusted them to SEM IX. As a non-profit organisation, SEM IX is obliged to reinvest any money earned into the rehabilitation.
This construction has many advantages. Firstly, it takes out some – for a successful rehabilitation however crucial – responsibilities, from the realm of party/municipal politics, and delegates them to a more neutral actor. Secondly, the more economic orientation can generate more revenue for the municipality. Thirdly, it helps to separate, at least for a while, the money designated strictly for the rehabilitation, and prevents its absorption within the municipal budget. The annual reports required from SEM IX ensure that, despite its freedom in decision-making on a daily basis, the fundamental direction of the programmes has to stay within the conceptual framework set by the local municipality, and be implemented according to the yearly programme, elaborated by SEM IX and approved by the municipality.

This structure has been deemed one of the most successful models for public sector led, market oriented urban renewal in Hungary so far, though criticism of the programmes highlight the very physical nature of the process and the relatively large-scale exchange of population (gentrification phenomenon).

**JESSICA, added value, and the issue of UDF organisation and Holding Fund management**

The Hungarian case study has elaborated a number of constraints on both the demand and supply side for successful development of integrated urban development projects. Despite the significant role of municipalities in urban renewal efforts, the sector is facing considerable problems regarding investment funding. In addition, existing local government structures often do not adequately support the needed cooperation among various professions involved in the complex urban development process, e.g. property and real estate managers, urban planners and regulators, local government and company finance experts. Implementing JESSICA mechanisms would speed up the dissemination of new approaches to urban regeneration in terms of financing solutions and best practice in partnership organisation and management. Some missing or very weak elements on the supply side of finance (like equity and guarantee provisions) could also make UDFs very attractive, especially where the private sector is involved in the projects/programmes.

The cost of finance from UDFs or, rather, the conditions of loan/equity and guarantees will be crucial in Hungary. The public sector is not only extremely grant-oriented, but can get very favourable loans from MFB or even from commercial banks. Therefore, the financial instruments available from UDFs would be much more attractive to the public sector if they were combined with some grant elements. In fact, given that the competition in the lending-market is extremely high (at least in the large municipality segment), the question is whether UDFs could offer loans with more favourable conditions than the commercial banks.

Therefore, in the Hungarian context, the most relevant role of UDFs would be to launch and catalyse those urban renewal programmes, where projects are larger-scale and where profit-generation is clear in the long-term, either where the main problem is a shortage of money (or problem with risk-taking) to make the area suitable for the start of the project, or where a catalyst is needed when the programme has already started, but slowed down because of some unforeseen obstacles. In this respect, the consultants felt that the involvement of European Union and EIB/CEB in UDFs would mean a sort of added trust, especially in the case of public-private partnerships, as the experience with these types of structures still remains rather limited in Hungary.
The other important UDF role could be the preliminary financing of projects supported from ERDF, as municipalities often require loans in order to start the implementation because of the financing mechanisms of Structural Funds and the need for the own contribution up-front. While the relative advantage of this approach would be the short payback-time – considering the N+2 rule – on the other hand there would be less of the catalysing or volume increasing effect of urban renewal activities.

Based on the indicative allocation of ERDF already affected among regions, and considering that urban renewal objectives are integrated in regional OPs, it would be logical to establish regional UDFs, especially as they could judge the project applications better in the regional context. This structure would provide the opportunity for regions to decide the proportion of their ERDF entitlement to allocate to any Holding Fund, which could then, in turn, consider the investments needs and the market, and the establishment of appropriate UDFs. Given the specific case of Budapest (size, importance, special legal provisions, etc.), the consultants saw the rationale for a dedicated Budapest UDF.

Taking into consideration that there is no experience with revolving funds in Hungary, and that the management background that will be needed for UDFs, the use of a Holding Fund seems realistic. In the consultants’ view, EIB was the preferred and logical candidate for the role of Holding Fund Manager for the following reasons: (i) MFB is specialised mainly in SMEs; (ii) there is no capacity either in public administration or in private sector for such a management function (and of course no experience), and; (iii) EIB is a ‘respected’ name in Hungary, so, the many parties concerned with this initiative (cities with different political leadingships, etc) would trust and accept the Bank as a ‘neutral’ player.

Comment

The review of the potential market in Hungary suggests that implementing JESSICA mechanisms would speed up the dissemination of new approaches to urban regeneration in terms of financing solutions and best practice in partnership organisation and management. In this context, the most relevant role of UDFs would be to catalyse those urban renewal programmes, where projects are larger-scale and where profitability is clear in the long-term, but where the main problem is a shortage of money (or problem with risk-taking) to prepare sites and to enable projects to be launched. Meanwhile, given that Hungary has no experience with revolving funds of the JESSICA type, and that managerial expertise and capacity to build UDFs will be needed sooner rather than later, it is suggested that the use of holding funds is desirable.

4.7 Poland

Introduction

The review and analysis in Poland included a case study in each of two of Polish regions with pronounced differences in their urban profiles and respective administrations, in order to evaluate the possibilities of establishing UDF structures designed to address urban problems and regeneration concerns at either end of the development spectrum. Although the first joint ventures and PPP structures for financing investment projects in the country date back to the mid-nineties, the performance of these early initiatives faced numerous obstacles, often resulting from the lack of clear and transparent principles for procedures at the interface between public and private finance. Against this backdrop, the two case studies are in essence simulations designed to review the possibilities that JESSICA affords for revisiting
intervention in the urban sector and, in turn, the possibilities afforded by PPPs and other delivery vehicles.

**General market characteristics**

Although the structure of Polish cities is polycentric, the 18 largest cities concentrate around 35% of Polish total urban population, economic transition has aggravated the traditional polarisation of rural and urban areas and of small and large cities. Key urban problems comprise unemployment, poverty, shortage of dwellings and a run-down housing stock. Nearly 25% of Poland’s housing resources are apartments in buildings erected before 1945. In most urban areas, housing problems have contributed to increasing social and economic polarisation and marginalisation. In particular, the lack of housing available to let to the poorer members of society is a growing issue. Although ERDF grants available for housing projects over the 2007-2013 period are not significant (3% of the allocation for each ROP), it is estimated that their availability will contribute substantially to improving the dynamics of revitalisation programmes.

According to the study, there is no explicit urban policy in Poland as of yet. Although the issues of urban development appear in developmental strategies and conceptual studies, both at the national and regional level, the legal, organisational or financial solutions for governmental urban policy have not been defined. The only comprehensive material comprising urban development issues is “URBAN POLICY – revitalisation and development, conceptual study for urban development in Poland”, a working document prepared in 2006 by the Ministry of Regional Development. Nevertheless, the existing National Spatial Planning Concept (NSPC) specifies the principles for balanced development, including social and economic factors as well as strategic targets of the government. In addition, National Strategic Plan 2007-2015 defines the overall economic and social developmental policy.

The reform of the State administration in 1998 separated state authority into three levels: local, regional and central government. The national government regards urban development principally as an element of regional policy and regional development. Urban issues are addressed in ROPs, where appropriate priority axes can be found in most. The fundamental document to be executed by ROP is the regional strategic plan, although in practice it is rather subordinated to obligations adopted in the National Strategic Reference Framework (NSRF). A number of guidelines, both by the European Commission and the Ministry of Regional Development, have restricted the possibility of reflecting the specific nature of the regions in ROPs.

As far as cities are concerned, they are complementary in terms of competence to the regions but lacking any decisive hierarchy. No special principles are defined for the cities to enable planning, programming or financing of developmental projects. Strategic planning of the cities has not been standardised, and cities are not obliged to deliver their development strategies. Moreover, the scope of urban development, methods of plan preparation and monitoring, and planning review periods are not subject to any formal standard.

**The need for urban intervention and current investment programmes**

The study has provided evidence of the fact that, despite the complexity of governmental structures and the lack of comprehensive legislation on urban development, Poland has nevertheless gained extensive experience in planning integrated functional spatial transformations as well as urban regeneration schemes. However, considering the substantial financial burden such projects represent, their implementation has proceeded very slowly. According to the study, as many as 104 Local Revitalisation Programmes have been prepared
by municipalities, their terms and scope corresponding to those defined by the Handbook of Implementation Procedures for the Integrated Regional Operational Plan (IROP) for the years 2004 – 2006.

In 2006 the share of expenditures proposed by the cities to finance revitalisation in their planned investment expenditures ranged from between 4.9 % and 23%, at mean percentage of 11.67 %. The revitalisation programmes implemented focus to a great extent on accomplishment of the physical and material aspects projects and programmes, which more often than not have to be supported by separate but complementary socio-economic measures. In short, plans are not always integrated in the generally understood sense, although programmes as a whole might well be.

Investment projects undertaken in the cities as well as other development oriented measures, including revitalisation programmes, are either initiated and implemented by the municipal authorities and financed by the city, or initiated, implemented and financed by the private sector. Although the first joint ventures and PPP structures for financing investment projects in Poland date back to the mid-nineties, their performance faced numerous obstacles, resulting mainly from the lack of clear and transparent principles for procedures at the interface between public and private finance. In the sector focused on high capacity projects in city centres, frequently involving facility or land recycling, the PPP/joint venture examples of partnerships between municipal entities and private partners include ‘Golden Terraces’ in Warsaw and ‘The Quarter’ in Bytom. In both cases, municipal contributions to the project were in the form of commune-owned land.

PPPs were legally regulated by the PPP act of 2005, introducing into the Polish legal system certain solutions encouraging private sector involvement in financing public infrastructure projects, which is of particular importance given growing public debt. The Act stipulates that PPP solutions should ensure ‘cost-effectiveness’ of the proposed structure and that negative aspects of partnership should also be taken into account (such as complexity of procedures, higher capital cost for the private sector, certain limitations to the influence of local authorities in performance of public utility services, etc.). So far, the implemented legal regulations have not contributed to an increase in PPPs. Generally, the regulations of the Act demand substantial organisational and financial effort focused on economic analysis, as well as extremely detailed risk evaluation, which has so far discouraged municipalities from employing such structures, in particular when planning complicated, integrated, developmental, investment projects for cities.

The study discusses five major funds and other financial instruments that influence, directly or indirectly, urban investments. However, it was pointed out that these do not form an integrated system of support for urban development, as the review presented in the study pointed to uncoordinated instruments of financial engineering dedicated to a relatively small group of beneficiaries. Financial products dedicated to municipalities focus on financing investment projects, mainly in the sphere of technical infrastructure and environmental protection or assistance in structuring projects supported by Community funds. The study found that, in Poland, there is still a substantial lack of financial market products/instruments or systemic solutions for the public sector designed specifically to satisfy the need for financing multi-sector, integrated ventures of the urban renewal type requiring large amounts of public money and private sector participation.

13 These funds include: National Housing Fund (NHF), National Credit Guarantee Fund (NCGF), EU Guarantee Fund, Subsidy Fund (SF) and the National Fund for Environmental Protection and Water Management (NFEPWM). There are also other funds such as Municipal Investment Development Fund (MIDF), Thermo-renovation Fund (TF), National Capital Fund and National Road Fund.
Polish Regional Case Studies

Two case studies were undertaken in two very different, although neighbouring, regions (Silesian and Opolskie regions), in order to investigate the possible scenario of creating a regional UDF (RUDF).

The Silesian region has one of the highest urbanisation indices in Poland (78%), is the second largest in population among the regions, and features the highest share of municipal communes by region. It is highly industrialised, featuring a large number of districts attractive for investment and a well-developed system of developmental organisations (the Upper Silesian Fund, the Upper Silesian Agency for Regional Development etc). The Regional Operational Programme highlights the priority of ‘balanced urban development’ assuming expenditures of EUR 277.56 million, including EUR 208 million from Community funds, or about 13.25% of the funds allocated to the region.

The Opolskie region is characterised by a low urbanisation index (51%) with a minor share of municipal communes. It is an agricultural and industrial district lacking a strong system of development organisations and is classified as of medium/low investment attractiveness. The regional development strategy defines a significant role for the cities to generate the developmental processes demanded by the regions. It introduces a hierarchy of urban centres depending on their roles within their respective localities. The Regional Operational Programme includes an extensive priority of ‘revitalisation’ assuming expenditures of EUR 40.1 million, including EUR 34.1 million from the Community funds, which represents 8% of the funds allocated to the region.

The conclusions in each of the two case studies show that the initial approach to the JESSICA initiative and UDF creation is not conditioned by the level of urbanisation of the region or scale of diagnosed scope for urban development actions. Significant regional differentiation of the level of planned resources for a specific urban-related priority also didn’t seem to influence the final assessment of the usefulness of the creation of RUDFs.

Despite continuous and discouraging lack of funding for long-term programmes of revitalisation and development, which strengthened the regional/city conviction of the need to seek financing within the private sector, the regional authorities’ attitude toward JESSICA-type structures remained relatively sceptical as they seemed to continue to favour well-known grant support mechanisms. The lack of available information concerning JESSICA may be one of the reasons that a more constructive approach to the JESSICA initiative’s possibilities was not formed, an issue that could probably be redressed in a “road-show” presentation of JESSICA in the country.
One of the issues discussed at length concerned the methodology and existence of suitably aggregated indices for performance of the required detailed analysis, both for the preparation of a project and its evaluation (especially as regards its profitability). Another problem was the interpretation of the terms ‘profit, income and revenue’ given the context in which Polish local administration units are normally forbidden from engaging in profit-making operations (the idea being that revenue-generating urban development project would result in extra ‘profit’ to the municipality). There were some differences in the understanding of UDF functioning, with opinions divided between its role as just a financing tool for a particular project or as a provider of complete (integrated) handling and management of development actions. The participants also had issues with the definition of ‘integrated urban development plans’ and how this concept should be applied within the envisaged pipeline of projects under ROPs.

The potential for JESSICA and key issues to take the initiative forward

The general assessment of perspectives of implementing a market oriented financing instrument for urban revitalisation and development programmes is moderately optimistic. Experiences and advantages of funds already used in Poland show that JESSICA mechanisms would very quickly become a durable and efficient tool for investing into urban development and revitalisation programmes. Such a system would fill the evident and commonly felt supply gap and significantly improve the financing modes for long-term investment projects in the cities. In addition, in Poland, implementation of market-oriented mechanisms for financing urban revitalisation and development is seen as a tool for rationalisation of decisions, both at the city and regional level.

The study had envisaged two scenarios for the creation of Urban Development Funds in the Polish context. The first scenario concerns the creation of Regional Urban Development Funds (RUDF) by regional authorities serving as ROP Managing Authorities. Making a decision to include this instrument in the ROP implementation system should be preceded by an analysis of the size of the capital gap, as a difference between the preliminary estimated level of capital requirements for implementation of integrated urban development plans and the forecasted levels of available capital mobilisation.

It is assumed that an RUDF is established as a capital stock company, giving its founder a deciding influence over the method of company operation. In order to succeed, RUDFs should attain the scale advantage in pooling significant private, institutional and individual capital. In other words, RUDFs should provide the legal and natural subjects committed to actions in revitalisation programmes, with investment resources and tools for making easier financial operations while reducing their costs and risk. Thus the size and structure of RUDF capital should at the same time guarantee the stability of operation of the fund itself and a continuous maintenance of an appropriate level of its investment capacity.

An alternative scenario would consist in a creation of a National Urban Development Fund (NUDF) by the Managing Authority of one of the presently existing Operating Programmes (OP), most probably the “Infrastructure and Environment” OP given its priorities. Alternatively, a new programme could be established which would be dedicated exclusively to the issue of urban development and housing construction. In this scenario, NUDF would act as a holding fund (fund of funds) investing into RUDFs. As such, it would not be handling direct investment in urban revitalisation and development programmes, but make
available (and easier to obtain) the capital needed for RUDF operation. NUDF would be a revolving and renewable capital, guarantee and loan fund. The scenario of creating the NUDF as a holding fund is aimed at filling the capital gap at the regional level and creation of the necessary investment impact. The case study assumed that the NUDF could invest in at least 5-6 RUDFs active within 2-3 regions. Such solution would significantly reduce costs of UDF operation at the regional level, and facilitate more efficient mobilisation of additional private sector capital.

According to the study, practical organisation and implementation of JESSICA-related mechanisms in Poland (especially those incorporating a holding fund structure) may require modifications within National Operational Programmes so that the contributions from those OPs - and not only those coming from the ROPs - could, when appropriate, be mobilised for the JESSICA initiative.

The advantages of Holding Funds

A Holding Fund system would increase the efficiency of EU financial support and direct the stream of private capital to the revitalisation and urban development programmes. As a Holding Fund Manager, EIB would have the obvious advantage that as a community bank of unquestionable renown it would constitute a guarantee of effective management of the fund that would probably result in higher interest of private capital in investing in the fund. Its experience in handling investments in cities would also give it an edge during realisation of such tasks of a fund manager as organising and rendering support in creation of RUDFs and basic support in investment decision-making etc.

Issue of Technical Assistance

The study maintains that the needs concerning technical assistance would arise in relation to methodology and the tools for performing the analysis of the economic efficiency of urban regeneration and development programmes. In the further stage of the development of the JESSICA initiative, technical assistance would be needed for modelling appropriate forms and criteria for fund operation best adapted to specific regional conditions and to forecast the dynamics of the investment market.

Comment

The study provides a general assessment of and perspectives for implementing market oriented financing instruments for urban revitalisation and development programmes. It is suggested that experiences and advantages of investment funds already used in Poland show that JESSICA mechanisms would very quickly become a durable and efficient tool for investing in the urban sector. Such a system would fill the evident and commonly felt supply gap and significantly improve the financing modes for long-term investment projects in Poland’s cities. In addition, implementation of market-oriented mechanisms for financing urban regeneration and development is seen as a tool for rationalisation of decisions, both at the city and regional level. The study highlighted the need for more and better dissemination of information regarding JESSICA, and pointed to the inevitable need for technical assistance in implementation. Given appropriate support, the demand for JESSICA was anticipated to be significant. The consultant suggested that UDFs would probably be best administered regionally, and that a holding fund structure would be needed.
5. JESSICA IN PRACTICE

5.1 Practical ramifications
A number of practical implications have emerged, stemming from the JESSICA concept illustrated in Section 3 and in the light of the findings from the case studies in Section 4. These are addressed in turn.

5.2 Level of return
In the EIB’s discussions with interested parties and following review of the case studies, particularly those for the mature constituencies, there appears to be more appetite for JESSICA from the private sector under the scenario where JESSICA funding takes on a different risk or attracts a different return from that available to the private sector. This attitude seems to stem from the private sector’s interest in increasing not just capacity but also capability of investment in urban development. In the UK case study, for example, it is noted that JESSICA’s attraction includes the means of resolving issues “related to the often significant up front costs of enabling infrastructure investment... it will be important to understand the implications of positioning JESSICA at what is the higher risk end of the investment spectrum”

If JESSICA funding takes a position exactly matching the private sector’s contribution, this will simply provide additional funding for projects, which would in any case be acceptable to the private sector. Where JESSICA funding’s risk and return differs from the private sector’s, the UDF employing the funding may be able to undertake investment which the private sector would otherwise not be willing to finance or where the private sector would demand a particularly high risk premium or security which public sector sponsors could be reluctant to give.

JESSICA funding could assist projects by taking a position other than those of the private sector parties by:

- funding a project development prior to planning permission or during land remediation, where the outcome may be too risky for private sector interests;
- acting as “first in, last out” investor, allowing private sector interests to crystallise their return;
- subordinating JESSICA funding to private sector contributions in the event of a project failure;
- taking a higher return than available to private sector interests for the increased level of risk;
- accepting a lower target return from the outset for the same risks, providing an uplift for private sector interests once the project has reached the JESSICA funding’s threshold; or
- underwriting private sector risks in areas where the private sector would not normally invest.

These mechanisms are attractive to the private sector as they either dampen the risks inherent in the project or increase returns available for risks which are close to, or beyond, the edge of
the private sector’s risk appetite. Our consultant’s take a similar stance in their review of the UK case study: “the principle being that a rigid and private sector type approach to maximising investment returns may not be effective in maximising JESSICA’s additionality.”

It is not clear whether any deviation from the private sector contributors’ position will entail the implicit provision of state aid. EIB’s position is that a deviation is not per se tantamount to illegal state aid. As an illustration, a municipality could itself provide normal grant funding for a project’s early-stage development. The grant funding would allow the private sector to be involved at a later stage, once the risk of the project had become acceptable. Differing risk positions in a UDF would allow the same process to take place, with the difference only that the public sector contribution in the form of JESSICA funding would share in the upside.

In the situation described above, there would appear to be no favouring of private sector interests in the JESSICA scenario. Rather the reverse.

All users of JESSICA funds, but particularly private sector contributors, will need the state aid issues to be clarified before initiating their contribution. EIB understands that in previous cases concerning partly public sector equity investment for urban developments, geographical or other restrictions have been applied to equity investments. By definition, the tighter the restrictions, the less scope there will be to employ JESSICA funding.

**EIB recommends that:**

- the Commission clarify the position on state aid involved in JESSICA funding at the earliest opportunity; and
- the Commission limit any state aid restrictions applied to JESSICA funding to an easily explicable minimum which can be put into practice by market participants.

### 5.3 Relationship of JESSICA funding with other contributions

Some correspondents have suggested that ring-fencing JESSICA funding within a Holding Fund or UDF would cause management complexity, a point reinforced in the case studies, particularly if JESSICA funding could be applied only to a selected minority of the JESSICA fund’s investments. This suggestion appears to be in some contradiction to the preference of interested parties to allow JESSICA funding to be used flexibly to absorb different risks or obtain different returns from those of other contributors. It would appear that the market requirement underlying the suggestion is to be able to manage each JESSICA fund as a single unit, determined by the contract between fund manager and its hierarchical superior within the JESSICA schematic, rather than having separate processes, regulations and investment criteria governing JESSICA funding and other contributions. Should such differences be unavoidable, a series of sub-funds may be necessary to cover both JESSICA and other funding. The additional complexity will be the price of clarity within each sub-fund.

The contract governing each JESSICA fund will need to set out the arrangements for returns earned in the fund. Non-JESSICA contributors of funding will expect to be able to withdraw returns during the life of the fund and/or at the fund’s agreed winding up point. JESSICA funding, however, may be recycled within the fund beyond the fund’s standard “re-investment” period, and may under the regulatory framework not be repayable to the MA. The dynamic between the various contributors and the resultant effect on the fund’s size will need to be clarified at the outset.
5.4 Returns available to fund managers

The JESSICA regulatory framework dictates that:

- a Holding Fund manager appointed by a Managing Authority without competition may earn up to 2% p.a. on the amount of funding contributed to the fund on a not for profit basis;
- a Holding Fund manager appointed after competition may charge up to 2% p.a. and include a profit element, unless a higher percentage proves necessary following the tender; and
- a UDF manager may earn up to 3% p.a. for fund management and include a profit element.

While not explicit in the regulations, EIB assumes that these fees are cumulative rather than alternatives; in other words, fees are chargeable on the funding contributed to the fund not funding used by the fund for investments. Total fund management charges are, however, limited to 5% p.a.

EIB believes that this level of charge will be sufficient to satisfy potential managers, but purely for fund management responsibilities. Managers in the equity model may in addition expect a “carried interest” whereby the manager shares in any return over and above the cost of the original contribution. Arrangements for the carried interest will depend on the market and the investment profile of the individual fund. It will be separate from the return on investment payable to other contributors to the JESSICA fund.

5.5 Forms of financial flow

The initial contribution to JESSICA is by way of donation from the Managing Authority. However, it has yet to be clarified how this action will legally determine the ownership of funding through the JESSICA structure. The JEREMIE team in EIF has been working on a number of proposals to pin down the legal parameters for the financial flows in JEREMIE, which we would expect to apply equally to the JESSICA initiative.

Financial flows and commitments within the JESSICA schematic and contributions to the urban development projects are expected to be flexible, including:

- “repayable contribution” in the non-equity model\(^\text{14}\), which will be a contribution to a fund with the expectation of repayment at a set rate of repayment, though potentially without any interest element;
- equity;
- mezzanine or subordinated debt;
- senior debt; or
- guarantee.

Each of these elements (except probably the repayable contribution) could attract “leverage” from non-JESSICA contributions. It has been suggested, as a parallel to the expected

---

\(^\text{14}\) The term “repayable contribution” employed here is simply to distinguish it from more market-oriented instruments; the contribution itself may be in the form of a loan or a succession of agreed transfers between public sector entities.
structures employed in JEREMIE, that guarantees will provide particular leverage. However, there may be limited potential for this, since the urban development project portfolio is likely to consist of a small number of individual projects, without offering scope of a portfolio effect on the capital required to back the guarantee.

In this context, the creditworthiness of the JESSICA funds will need to be considered during the development phase of the JESSICA initiative, since investors, project developers and other parties will need to gauge the likelihood of a JESSICA fund performing in line with its commitments. Careful determination of the JESSICA funds’ credit profile will be required, as will co-ordination between JESSICA funds in different areas, since each fund’s reputation may be affected by developments of JESSICA funds elsewhere.

5.6 Timing of financial flow

Urban projects take a long time to explore, structure and implement. Planning issues may take years to resolve. Large-scale redevelopment may occur over a decade or more. JESSICA contributions will need to be structured to cope with these timescales. Under the regulatory framework, JESSICA contributions to urban development projects have to be made at least once by 2015 to qualify as final payment, although projects need not be complete by that time. It is our expectation that JESSICA funds may see minimal recycling of contribution within the expected period, though a running yield may be seen at an earlier stage, e.g. from rentals paid to a UDF and dividends paid to a Holding Fund. It is to be noted that the winding-up point of investment funds is often set at 10 years or longer.

The declaration of a “final payment” under the regulatory framework will need clarification. If final payment of contributions to projects is not evident by 2015, it would appear that structural fund allocations are cancelled and contributions have to be returned. With longer-term projects and with back-up facilities, however, a JESSICA fund may commit funding without the funds being drawn down in the period up to 2015. In the case of guarantees, it is to be hoped that no payment ever be made.

EIB recommends that the Commission confirm that:

- irrevocable commitment of funds, rather than a physical payment of cash, be sufficient to qualify funding as a “final payment”; and
- commitments made to urban development projects within the terms of any contract that is agreed to be acceptable for JESSICA purposes be themselves as a result considered acceptable and qualifying as “final payments”.

5.7 Recovery and recycling of funding

The regulatory framework for JESSICA does not provide for the recovery of funding by the MA but this can presumably be part of the contractual arrangements which MAs put in place with JESSICA fund managers.

Recycling of funding is expected to occur at the level of Holding Fund and/or UDF. Contracts governing the JESSICA funds will need to specify how funding will be reapplied once it is recycled to the funds. The requirement is that funding will be reapplied to projects in urban areas, though without the particular requirements of JESSICA, although the latter is
not precluded. It is to be noted that contributors of funding other than JESSICA funding may expect to be able to withdraw their funding from the funds prior to re-application.

5.8 Eligibility

All parties involved in JESSICA structures will need to be assured that JESSICA funds’ commitments and contributions to urban development projects are not subject to retrospective “interpretation of the rules” and demands for repayment. Without this assurance, the appetite to use JESSICA funding will in EIB’s view be seriously diminished. Eligibility is therefore a key issue for the JESSICA initiative, and is being explored in depth with the Commission. It will be a key subject of an interpretative note being prepared by the Commission’s services to address this and a number of outstanding issues, for publication in early 2007.

**EIB recommends that:**

- the definition of scope for JESSICA funding be established with a wide remit, allowing JESSICA funding to be contributed to any projects (or as wide a range as possible) forming part of an integrated plan for urban renewal/regeneration;

- formal eligibility to be made contingent on the contracts governing the JESSICA structure (e.g. between MA and Holding Fund, and between Holding Fund and UDF); thus, providing that a fund operates and invests in accordance with an agreed contract, its contributions to urban development projects will perforce be eligible;

- the Commission institute simple procedures for establishing the eligibility of the contracts governing JESSICA funds, including allowances for multiple contracts based on an agreed standard proforma.

5.9 Procurement

Procurement regulation normally follows the rules established for the individual party involved in a transaction, not for the source of cash. Thus a private sector entity receiving a public sector grant does not per se have to procure according to public sector rules for the use of that grant. The amount of public sector funding overall will, however, determine whether an entity needs to follow public sector procurement rules.

The corollary in JESSICA is that the status of a fund manager, either private or public, is not affected by the management of a JESSICA fund, whatever the balance of private or public sector funding in that fund. Thus a private sector fund manager will be able to procure its general services in its normal manner. Likewise, the developer of a project supported by a UDF should not per se be affected by the balance of funding in the UDF. However, it is not clear whether an entity part-capitalised with JESSICA funding, including a substantial public sector element, could be governed by public sector procurement rules.

Further issues arise concerning the procurement of UDFs and projects themselves. Those to be addressed include the need for differing approaches across the EU, determining how the UDFs would secure JESSICA funding, whether via bid rounds or individual approaches and the use of a centralised procurement process or regional fund allocations, and what management structure for the programme is most appropriate.
EIB recommends that:

- the Commission clarify the procurement position of entities receiving JESSICA contributions by way of loan or equity.

5.10 Supervision and auditing

The regulatory framework for JESSICA does not prescribe a specific monitoring regime for JESSICA contributions to urban development projects, and the Commission has stated that the standard regime for structural fund grants will therefore apply. Both MAs and the Commission are likely to want audit rights over the application of JESSICA funding.

The contracts, which will govern the JESSICA structure, will have to include terms for the arrangement of supervision and auditing of the JESSICA funds and the urban development projects. In particular, contracts must specify how funding is to be handled in the event that as a result of an audit, funding is deemed not to have been applied in accordance with contractual obligations. This may be particularly difficult if breach of contract is deemed to be the fault of a party other than the ultimate receiver of funding (e.g. a breach by a Holding Fund manager or UDF manager). In these circumstances, the urban development project’s developer may still find itself obliged to repay funding despite not being at fault. Further clarification on this issue is needed.

In addition, the mechanisms and arrangements for repayment of funding as a result of an adverse audit will need to be contractually agreed.

5.11 Need for further work

Given that a number of key issues remain unresolved, EIB’s JESSICA team has not progressed as far as originally proposed in the design of the necessary structural mechanisms for JESSICA. The analysis above has highlighted a number of technical issues that will require further clarification including:

Contractual arrangements

Development work on contractual arrangements will need to establish:

- the legal status of funding once in the JESSICA structure;
- rights of MAs to interest on funding amounts in a Holding Fund or UDF, before the fund manager has invested cash, respectively, in a UDF or urban development project;
- rights of MAs to returns generated by Holding Funds and UDFs, and the position of those rights vis à vis rights of other contributors;
- MAs’ ability to enforce contracts through the JESSICA structure (e.g. to ensure that UDFs make contributions to urban projects in accordance with the contract between MA and Holding Fund);
- legal status of funds beyond 2013; and
- winding up procedures for JESSICA funds, with recovery and recycling of funding.

Given that the same issues arise in JEREMIE, EIB expects to be able to use relevant development work on these legal issues undertaken by EIF. However, JESSICA is wider in scope and in a more complex market sector than JEREMIE, and additional legal work will undoubtedly be needed to prepare the JESSICA funding regime in practice.
Performance indicators

Performance indicators will be required by MAs and other interested parties to allow monitoring of the success of their JESSICA funding. In addition, the public sector will be interested in the outcomes of JESSICA funding across the European Union so as to learn from best practice (and mistakes). It may be advisable to make performance indicators publicly available, at least where they do not involve commercial confidential information (such as non-JESSICA contributors’ return on equity in JESSICA funds under the equity model).

Contributions of JESSICA funding to urban development projects will be expected to meet both financial and policy objectives and JESSICA funds will therefore require a complex suite of performance indicators. Indicators will need to cover:

- financial performance, particularly in the equity model where regular formal valuations of funds will be required for contributors of both JESSICA funding and other funding; and
- policy outcomes, such as number of jobs created, environmental improvements or property values in the redevelopment areas.

Examples of these complex information packages for monitoring performance and policy outcomes are used by and may be available from existing urban investment funds.

The creation of UDFs

The JESSICA regulatory framework does not prescribe the form of UDFs and these could consist of a wide range of entities from formal equity funds, to housing associations, to a simple special purpose vehicle or special bank account set up by public sector bodies to handle repayable contributions.

Given the existing interest in using JESSICA funding from a number of Member States, it is likely that UDFs will be formed (or existing entities officially labelled as UDFs) through tailored discussions with Member State and MA representatives.

Exposing UDFs to risk taking in regeneration projects requires expertise at all administrative levels including:

- ability of managing bodies to understand, monitor and evaluate the risk taken;
- close and active liaison by MAs and HFIs with UDFs and also with the individual transactions; and
- ability to structure clear yet potentially complex returns mechanisms and then monitor projections going forward.

User Guidelines.

Progress in resolving the questions highlighted in this Section will be facilitated through the production and diffusion of user guidelines for MA officials and other relevant parties to encompass issues such as procedural and regulatory matters, delivery mechanisms and structure, role and function of the participants, institutional models, financial vehicles, contractual arrangements, monitoring and eligibility matters as well as compliance with EC laws on procurement and State aid.
6. OUTSTANDING QUESTIONS

As laid out in section 5, a number of outstanding questions and issues need to be addressed, as a matter of urgency, if the initiative is to deliver on its potential.

Commission issues

In the short term, it is expected that the Commission will issue “interpretative notes” and other guidance material to operators of UDFs and applicants for JESSICA funding on key areas including:

- eligibility for funding for projects included in an integrated urban development plan;
- priorities for JESSICA funding which promoters will need to bear in mind;
- mechanisms for cashflow and return;
- State Aid; and
- procurement rules for entities within or contributing to a JESSICA framework.

Furthermore, short-term progress will be needed on the legal form of the cashflows within JESSICA, and the potential range of relationships between funding from Structural Funds and other contributions, particularly from the private sector. These issues will need to be clarified before MAs are able to agree investment in JESSICA, whether via Holding Funds or UDFs. Once clarified, MAs will expect legal certainty on the structures. On the first JESSICA transactions, the Commission may be requested to confirm MAs’ proposals formally, including a confirmation of the form and content of legal contracts between MAs and the relevant JESSICA funds. The Commission may also be asked to provide confirmation on the acceptability of the first investments in urban development projects, to ensure that:

- private sector or other contributors do not feel at risk from later and adverse decisions; and
- such confirmation can be used to encourage other MAs to use the JESSICA structure.

The requirement for confirmation of these early investments in urban development projects comes despite the need, in EIB’s view, for the Commission to focus its effort on agreeing contractual relationships between MAs and the relevant JESSICA funds, and to allow the funds (or more appropriately, the fund managers) themselves to decide the acceptability of the urban projects. (See section 5.6 above.)

There will clearly be a need to develop appropriate funding approaches taking into account views from regeneration practitioners, including:

- the need for flexibility of mode of investment (grant to equity spectrum);
- linking financial returns to the success of the intervention undertaken;
- considering options to underwrite investment programmes in order to provide support yet minimise up-front cash flow requirements; and
- identification of appropriate principles underlying JESSICA’s rate of financial return requirements.
**EIB role**

During 2007 and 2008, EIB’s role will be to assist the Commission in developing the JESSICA framework. EIB expects to:

- further explore the potential for JESSICA investment funds with individual Member States and representative desk officers at the Commission;
- widen the consultants’ investigative research into the conditions for fund-based investment in selected Member States, regions and cities, including more in depth analysis of Urban Development Funds (“UDFs”) where they already exist;
- set out exemplar structures and investment management contracts so as to establish the means of investing structural funds in urban development projects through UDFs and, where appropriate, through Holding Funds (fund of funds);
- recommend how the JESSICA initiative should best be taken forward in the Member States’ varying institutional environments; and
- agree with selected Managing Authorities the required next steps for successfully implementing JESSICA investment using part of the Authorities’ structural fund allocations.

**Pilot projects**

The case studies carried out for the initial phase of JESSICA suggest that it would be useful to progress a limited number of potential transactions as “pilots” for the rest of the JESSICA framework across the EU. While the nature, focus and success of JESSICA investments will be heavily influenced by the market circumstances of individual Member States, the proposed pilots would look to provide insight and practical evidence of market delivery, which could be used to support JESSICA’s medium term development across the EU, in the light of the issues set out above.

To support the progress of pilot transactions, consideration will need to be given as to how central governments are to be brought into the structuring discussions. In particular, there is a need to understand more fully and accommodate the implications of strong internal administrative divisions within individual Member States.

Early “wins” may be crucial to capture the potentially significant benefits of the JESSICA initiative. JESSICA’s sponsors, including in particular the Commission, will have to ensure that proposals and realised pilots are appropriate to market needs (including the needs of private sector contributors), transparent and straightforward to access. These elements can be expected to support a successful rollout of the initiative on a wider scale in Member States with varied planning and market circumstances, and will secure additional investment and momentum in improving the urban environment, well beyond what could be achieved by the current public programmes and intervention tools\(^\text{15}\).

\(^{15}\) It is worth noting that EIB is already exploring initial investments and/or investment potential with a number of Member States and MAs, and some of these early discussions are well in train.
Medium term prospects

It will be important that JESSICA funding is kept as flexible as currently envisaged, even in later stages of investment, after the initial “revolving” period up to 2013. A range of emerging issues and trends will need to be considered including:

- changing policy contexts in terms of greater emphasis on mixed and sustainable communities;
- development in the ability of local public organisations to raise finance directly in various Member States, or to secure up-lift in value of land-based assets so as to attract private investment; and
- changes in planning priorities, with an increasing emphasis on central areas, sustainability, and protection of the built and natural environments.

Furthermore, one of the suggestions arising from the case studies is that JESSICA should look to complement private sector appetite, perhaps by adopting an ‘enabling’ rather than ‘active delivery’ role in order to maximise private sector engagement. This position may differ between Member States dependent upon the level of market sophistication – this may impact significantly on the level of activity that JESSICA undertakes in each Member State.

Conclusion

The case studies commissioned by EIB and the discussions which EIB has led with interested parties and potential market participants highlight the fact that JESSICA represents a great opportunity to stimulate and drive forward urban regeneration and renewal across the EU, and a chance to lead the debate around innovative tools for public sector intervention. The success of the initiative will, however, crucially depend on an effective and efficient rollout of the programme and its investment structures, ensuring these are appropriate to market needs, transparent and straightforward to access, and will secure additional investment and momentum over current programmes and intervention tools.
APPENDIX A - LEGISLATIVE PROVISIONS

JESSICA is facilitated by general and specific regulations designed to enable Member States to use some of their Structural Fund allocations to exploit financial engineering mechanisms to support investment in sustainable urban development in the context of Cohesion Policy, including:


- **IMPLEMENTING PROVISIONS OF REGULATION (EC) No 1080/2006** making provision for the eligibility of expenditure on housing and setting out rules for intervention in the housing field.

Fuller details of the specific instruments are outlined in the following pages.
Article 36: Participation by the European Investment Bank and the European Investment Fund

1. The EIB and the EIF may participate, in accordance with the modalities laid down in their statutes, in the programming of assistance from the Funds.

2. The EIB and the EIF may, at the request of Member States, participate in the preparation of national strategic reference frameworks and operational programmes, as well as in activities relating to the preparation of projects, in particular major projects, the arrangement of finance, and public-private partnerships. The Member State, in agreement with the EIB and the EIF, may concentrate the loans granted on one or more priorities of an operational programme, in particular in the spheres of innovation and the knowledge economy, human capital, the environment and basic infrastructure projects.

3. The Commission may consult the EIB and the EIF before adoption of the decision referred to in Article 28(3) and of the operational programmes. That consultation shall relate in particular to operational programmes containing an indicative list of major projects or programmes which, by the nature of their priorities, are suitable for mobilising loans or other types of market-based financing.

4. The Commission may, if it considers it appropriate for the appraisal of major projects, request the EIB to examine the technical quality and economic and financial viability of the projects concerned, in particular as regards the financial engineering instruments to be implemented or developed.

5. The Commission, in implementing the provisions of this Article, may award a grant to the EIB or the EIF.

Article 44: Financial engineering instruments

As part of an operational programme, the Structural Funds may finance expenditure in respect of an operation comprising contributions to support financial engineering instruments for enterprises, primarily small and medium-sized ones, such as venture capital funds, guarantee funds and loan funds, and for urban development funds, that is, funds investing in public-private partnerships and other projects included in an integrated plan for sustainable urban development.

When such operations are organised through holding funds, that is, funds set up to invest in several venture capital funds, guarantee funds, loan funds and urban development funds, the Member State or the managing authority shall implement them through one or more of the following forms:

(a) the award of a public contract in accordance with applicable public procurement law;
(b) in other cases, where the agreement is not a public service contract within the meaning of public procurement law, the award of a grant, defined for this purpose as a direct financial contribution by way of a donation:
   (i) to the EIB or to the EIF; or
   (ii) to a financial institution without a call for proposal, if this is pursuant to a national law compatible with the Treaty.
The implementing rules of this Article shall be adopted by the Commission in accordance with the procedure referred to in Article 103(3).

**Statement of the Commission on Article 44 of Regulation 1083/2006**

The ability of Member States and managing authorities to select a suitable holding fund is essential for operations to improve access to finance for micro to medium enterprises under the JEREMIE initiative, and for operations to promote sustainable investment in urban projects under the JESSICA initiative. In order to ensure that this power of selection is not compromised and to give an *effet utile* to Article 44(b), the Commission encourages the Member States and managing authorities to select a holding fund by awarding a grant to the EIB, the EIF or to financial institutions pursuant to their national laws in compliance with the Treaty. Alternatively, Member States and managing authorities may select a holding fund by awarding a public service contract in compliance with public procurement law.

**Article 78: Statement of expenditure**

1. All statements of expenditure shall include, for each priority axis, the total amount of eligible expenditure, in accordance with Article 56, paid by beneficiaries in implementing the operations and the corresponding public contribution paid or due to be paid to the beneficiaries according to the conditions governing the public contribution. Expenditure paid by beneficiaries shall be supported by receipted invoices or accounting documents of equivalent probative value. However, as regards aid schemes within the meaning of Article 87 of the Treaty only, in addition to the conditions set out in the previous subparagraph, the public contribution corresponding to the expenditure included in a statement of expenditure shall have been paid to the beneficiaries by the body granting the aid.

2. By way of derogation from paragraph 1, as regards State aid within the meaning of Article 87 of the Treaty, the statement of expenditure may include advances paid to the beneficiaries by the body granting the aid, under the following cumulative conditions:
   (a) they shall be subject to a bank guarantee or a financial public facility having an equivalent effect;
   (b) they shall not exceed 35 % of the total amount of the aid to be granted to a beneficiary for a given project;
   (c) they shall be covered by expenditure paid by beneficiaries in implementing the project and supported by receipted invoices or accounting documents of equivalent probative value at the latest three years after the year of the payment of the advance or on 31 December 2015, whichever earlier; if they are not, the next statement of expenditure shall be corrected accordingly.

3. Statements of expenditure shall identify, for each operational programme, the elements referred to in paragraph 1 relating to regions receiving transitional assistance.

4. In the case of major projects as defined in Article 39, only expenditure related to major projects already adopted by the Commission may be included in statements of expenditure.

5. Where the contribution from the Funds is calculated with reference to public expenditure as provided for in Article 53(1), any information on expenditure other than public expenditure shall not affect the amount due as calculated on the basis of the payment request.
6. By way of derogation from paragraph 1, as regards financial engineering instruments as defined in Article 44, the statement of expenditure shall include the total expenditure paid in establishing or contributing to such funds or holding funds. However, at the partial or final closure of the operational programme, eligible expenditure shall be the total of:
   (a) any payments from urban development funds for investment in public private partnerships or other projects included in an integrated plan for urban development; or
   (b) any payments for investment in enterprises from each of the abovementioned funds; or
   (c) any guarantees provided including amounts committed as guarantees by guarantee funds; and
   (d) eligible management costs.
   The co-financing rate shall be applied to the eligible expenditure paid by the beneficiary.
   The corresponding statement of expenditure shall be corrected accordingly.

7. Interest generated by payments from operational programmes to funds as defined in Article 44, shall be used to finance urban development projects in the case of urban development funds or financial engineering instruments for small and medium-sized enterprises in other cases. Resources returned to the operation from investments undertaken by funds as defined in Article 44 or left over after all guarantees have been honoured shall be reused by the competent authorities of the Member States concerned for the benefit of urban development projects or of small and medium-sized enterprises.
of 5 July 2006 on the European Regional Development Fund and repealing Regulation (EC) No 1783/1999

Article 7: Eligibility of expenditure

2. Expenditure on housing shall be eligible only for those Member States that acceded to the European Union on or after 1 May 2004 and in the following circumstances:
   (a) expenditure shall be programmed within the framework of an integrated urban development operation or priority axis for areas experiencing or threatened by physical deterioration and social exclusion;
   (b) the allocation to housing expenditure shall be either a maximum of 3 % of the ERDF allocation to the operational programmes concerned or 2 % of the total ERDF allocation;
   (c) expenditure shall be limited to:
      - multi-family housing, or
      - buildings owned by public authorities or non-profit operators for use as housing designated for low-income households or people with special needs.

The Commission shall adopt the list of criteria needed for determining the areas referred to under point (a) and the list of eligible interventions in accordance with the procedure referred to in Article 103(3) of Regulation (EC) No 1083/2006.

Article 8: Sustainable urban development

In addition to the activities listed in Articles 4 and 5 of this Regulation, in the case of action involving sustainable urban development as referred to in Article 37(4)(a) of Regulation (EC) No 1083/2006, the ERDF may, where appropriate, support the development of participative, integrated and sustainable strategies to tackle the high concentration of economic, environmental and social problems affecting urban areas.

These strategies shall promote sustainable urban development through activities such as: strengthening economic growth, the rehabilitation of the physical environment, brownfield redevelopment, the preservation and development of natural and cultural heritage, the promotion of entrepreneurship, local employment and community development, and the provision of services to the population taking account of changing demographic structures.

By way of derogation from Article 34(2) of Regulation (EC) No 1083/2006, and where these activities are implemented through a specific operational programme or priority axis within an operational programme, the ERDF funding of measures under the Regional competitiveness and employment objective falling within the scope of Regulation (EC) No 1081/2006 may be raised to 15 % of the programme or priority axis concerned.
COMMISSION REGULATION (EC) No 1828/2006 of 8 December 2006
setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying
down general provisions on the European Regional Development Fund, the European
Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the
European Parliament and of the Council on the European Regional Development Fund

CHAPTER II
IMPLEMENTING PROVISIONS OF REGULATION (EC) NO 1083/2006

Section 8
Financial engineering instruments

Article 43
General provisions applicable to all financial engineering instruments

1. Articles 43 to 46 shall apply to financial engineering instruments in the form of actions
which make repayable investments, or provide guarantees for repayable investments, or
both, in the following:

(a) enterprises, primarily small and medium-sized enterprises (SMEs), including micro-
enterprises, as defined in Commission Recommendation 2003/361/EC as of 1 January
2005, in the case of financial engineering instruments other than urban development
funds;

(b) public-private partnerships or other urban projects included in integrated plans for
sustainable urban development, in the case of urban development funds.

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

The business plan shall specify at least the following:
(a) the targeted market of enterprises or urban projects and the criteria, terms and
conditions for financing them;
(b) the operational budget of the financial engineering instrument;
(c) the ownership of the financial engineering instrument;
(d) the co-financing partners or shareholders;
(e) the by-laws of the financial engineering instrument;
(f) the provisions on professionalism, competence and independence of the
management;
(g) the justification for, and intended use of, the contribution from the Structural Funds;
(h) the policy of the financial engineering instrument concerning exit from investments
in enterprises or urban projects;
(i) the winding-up provisions of the financial engineering instruments, including the
reutilisation of resources returned to the financial engineering instrument from
investments or left over after all guarantees have been honoured, attributable to the
contribution from the operational programme.
The business plan shall be assessed and its implementation monitored by, or under the responsibility of, the Member State or the managing authority.

The assessment of the economic viability of the investment activities of the financial engineering instruments shall take into account all sources of income of the enterprises concerned.

3. Financial engineering instruments, including holding funds, shall be set up as independent legal entities governed by agreements between the co-financing partners or shareholders or as a separate block of finance within a financial institution.

Where the financial engineering instrument is established within a financial institution, it shall be set up as a separate block of finance, subject to specific implementation rules within the financial institution, stipulating, in particular, that separate accounts are kept which distinguish the new resources invested in the financial engineering instrument, including those contributed by the operational programme, from those initially available in the institution.

The Commission may not become a co-financing partner or shareholder in financial engineering instruments.

4. Management costs may not exceed, on a yearly average, for the duration of the assistance any of the following thresholds, unless a higher percentage proves necessary after a competitive tender:
   (a) 2% of the capital contributed from the operational programme to holding funds, or of the capital contributed from the operational programme or holding fund to the guarantee funds;
   (b) 3% of the capital contributed from the operational programme or the holding fund to the financial engineering instrument in all other cases, with the exception of micro-credit instruments directed at micro-enterprises;
   (c) 4% of the capital contributed from the operational programme or the holding fund to micro-credit instruments directed at micro-enterprises.

5. The terms and conditions for contributions from operational programmes to financial engineering instruments shall be set out in a funding agreement, to be concluded between the duly mandated representative of the financial engineering instrument and the Member State or the managing authority.

6. The funding agreement referred to in paragraph 5 shall include at least:
   (a) the investment strategy and planning;
   (b) monitoring of implementation in accordance with applicable rules;
   (c) an exit policy for the contribution from the operational programme out of the financial engineering instrument;
   (d) the winding-up provisions of the financial engineering instrument, including the reutilisation of resources returned to the financial engineering instrument from investments or left over after all guarantees have been honoured that are attributable to the contribution from the operational programme.

7. Managing authorities shall take precautions to minimise distortion of competition in the venture capital or lending markets. Returns from equity investments and loans, less a pro rata share of the management costs and performance incentives, may be allocated preferentially to investors operating under the market economy investor principle up to
the level of remuneration laid down in the by-laws of the financial engineering instruments, and they shall then be allocated proportionally among all co-financing partners or shareholders.

**Article 44**

*Additional provisions applicable to holding funds*

1. Where the Structural Funds finance financial engineering instruments organised through holding funds, the Member State or managing authority shall conclude a funding agreement with the holding fund, setting out the funding arrangements and objectives.

   The funding agreement shall, where appropriate, take account of the following:
   (a) as regards financial engineering instruments other than urban development funds, the conclusions of an evaluation of gaps between supply of such instruments to, and demand for such instruments by, SMEs;
   (b) as regards urban development funds, urban development studies or evaluations and integrated urban development plans included in operational programmes.

2. The funding agreement referred to in paragraph 1 shall, in particular, make provision for:
   (a) the terms and conditions for contributions from the operational programme to the holding fund;
   (b) a call for expression of interest addressed to financial intermediaries or urban development funds;
   (c) the appraisal, selection and accreditation of financial intermediaries or urban development funds by the holding fund;
   (d) the setting up and monitoring of the investment policy or the targeted urban development plans and actions;
   (e) reporting by the holding fund to Member States or managing authorities;
   (f) monitoring the implementation of investments in accordance with applicable rules;
   (g) audit requirements;
   (h) the exit policy of the holding fund out of the venture capital funds, guarantee funds, loan funds or urban development funds;
   (i) the winding-up provisions of the holding fund, including the reutilisation of resources returned to the financial engineering instrument from investments made or left over after all guarantees have been honoured which are attributable to the contribution from the operational programme.

   The investment policy referred to in point (d) shall comprise at least an indication of the targeted enterprises and the financial engineering products to be supported.

3. The terms and conditions for contributions to venture capital funds, guarantee funds, loan funds and urban development funds from holding funds supported by operational programmes shall be set out in a funding agreement, to be concluded between the venture capital fund, guarantee fund, loan fund or urban development fund, on one hand, and the holding fund, on the other.

   The funding agreement shall include at least the elements listed in Article 43(6).

**Article 45**
Financial engineering instruments other than holding funds and urban development funds shall invest in enterprises, primarily in SMEs. Such investments may be made only at the establishment, in the early stages, including seed capital, or on expansion of those enterprises, and only in activities which the managers of the financial engineering instruments judge potentially economically viable.

They shall not invest in firms in difficulty within the meaning of the Community Guidelines on State aid for rescuing and restructuring firms in difficulty as of 10 October 2004.

**Article 46**

*Additional provisions applicable to urban development funds*

1. Where Structural Funds finance urban development funds, those funds shall invest in public-private partnerships or other projects included in an integrated plan for sustainable urban development. Such public-private partnerships or other projects shall not include the creation and development of financial instruments such as venture capital, loan and guarantee funds.

2. For the purposes of paragraph 1, urban development funds shall invest by means of equity, loans and guarantees.

   Urban projects receiving grant assistance from an operational programme may also be supported by urban development funds.

3. Where Structural Funds finance urban development funds, the funds concerned shall not re-finance acquisitions or participations in projects already completed.
CHAPTER III
IMPLEMENTING PROVISIONS OF REGULATION (EC) NO 1080/2006

Section 1
Eligibility of expenditure on housing

Article 47
Interventions in the field of housing

1. The areas selected for housing operations referred to in point (a) of Article 7(2) of Regulation (EC) No 1080/2006 shall comply with at least three of the following criteria, two of which must fall within those listed under points (a) to (h):
   (a) a high level of poverty and exclusion;
   (b) a high level of long-term unemployment;
   (c) precarious demographic trends;
   (d) a low level of education, significant skills deficiencies and high dropout rates from school;
   (e) a high level of criminality and delinquency;
   (f) a particularly rundown environment;
   (g) a low level of economic activity;
   (h) a high number of immigrants, ethnic and minority groups, or refugees;
   (i) a comparatively low level of housing value;
   (j) a low level of energy performance in buildings.

   The values for the criteria set out in the first subparagraph shall be collected by each Member State concerned at national level.

   The benchmarking values for each criterion shall be determined in partnership between the Commission and each Member State.

2. Only the following interventions shall be eligible under point (c) of Article 7 (2) of Regulation (EC) No 1080/2006:
   (a) renovation of the common parts of multi-family residential buildings, as follows:
       (i) refurbishment of the following main structural parts of the building: roof, façade, windows and doors on the façade, staircase, inside and outside corridors, entrances and their exteriors, elevator;
       (ii) technical installations of the building;
       (iii) energy-efficiency actions.
   (b) delivery of modern social housing of good quality through renovation and change of use of existing buildings owned by public authorities or non-profit operators.
APPENDIX B - CASE STUDY SUMMARIES

The Preliminary Evaluation Study has been informed by a representative sample of case studies selected to cover UDF operations initiated and administered at different levels (national, regional and city-based), and in different environments and situations (country, size, maturity of EU membership, etc.). The work was undertaken by consultants and comprised: a UK study critically appraising UDF operations in what is perceived to be the most mature operational environment in Europe for this kind of investment vehicle; and five discrete, non-UK and country-specific case studies including Hungary, Holland, Italy, Poland and Spain. Separate contracts were awarded for each of the country studies, the objectives of which included:

- Identifying and summarising the nature and operation of intervention in the urban sector in the country in question, including the “planning” environment and prevailing protocols for the preparation of integrated renewal/regeneration plans.

- Reporting on the current policy arrangements for the operation of UDFs, if any, and the preferred level at which these are organised and administered, i.e. national, regional or city-based.

- Examining the current operation of UDFs within the selected country, with a representative and detailed case study to support the critical appraisal of current practice within the constituency and/or administrative tier under scrutiny.

- In the absence of any UDFs, a simulation reflecting the operational environment under consideration, illustrating how the JESSICA initiative could be exploited to best advantage.

- Establishing the scope/eligibility for investing in UDFs as they may, or may not, fall within prevailing EC and EIB financing parameters.

- Identifying the need for technical assistance to establish UDFs in the various administrative/sectoral areas and, as appropriate, what the essential components of the envisaged assistance should comprise.

Executive summaries for the six country studies are included in the following pages.
UNITED KINGDOM

Executive Summary

Consultant: PricewaterhouseCoopers LLP

Project Manager: Michael Atherton

Key Analyst: Paul Grosvenor

Contact Details: PricewaterhouseCoopers LLP
Benson House
33 Wellington Street
Leeds LS1 4JP
United Kingdom

Tel: +44 (0) 113 289 4000
Email: michael.a.atherton@uk.pwc.com
The national context and pattern of urbanisation.

- The UK regeneration and urban renewal market is diverse and undergoing a process of change. Regeneration activity in the UK is firstly sub-divided between England, Scotland, Wales and Northern Ireland. Within each of these national areas, it is further divided at a regional level with local government organisations, independent agencies, public sponsored organisations, and public/private partnerships delivering a range of programmes, initiatives and specific development projects covering a range of spatial levels. These organisations have developed a range of policy documents and frameworks which provide the strategic direction for their activities, and which are based on economic development, regeneration, sectoral, community sustainability, and spatial priorities.

- Analysis of the UK market suggests that there is no single all-purpose model. Flexibility to respond to ‘local’ needs and requirements – governed by some form of framework – is often more effective in securing required “buy-in” and active participation of all parties, from the public and private sectors as well as local communities – the ultimate beneficiaries of intervention.

- In virtually all of the UK’s major cities, substantial transformations have taken place, with a focus now on design and the development of iconic buildings, new retail, leisure and residential developments, as well as public open spaces. There has also been the creation of new ‘environments’ that are community and eco-friendly based, and that have attracted residents, employment and investment back into the city centres – reversing decades of decline and deprivation – and offering significant improvements in the quality of life for residents.

The need for urban intervention and current investment programmes.

- The review of the UK regeneration and urban renewal market place identified potential areas of market weakness or failure that could represent the ‘gap’ where JESSICA actions could fulfil a valuable role, namely:

- Up front enabling investment – related to the often significant up front cost of enabling infrastructure investment in relation to a site/project. There is a need to consider how JESSICA might assist in resolving this and related challenges.

- The need for the form of intervention to be appropriate to local needs. Analysis suggests that there may be a need to offer a choice between public grants in absolute market failure areas, equity investment in areas which require a lower level of intervention to progress investment activity, and/or the development of a portfolio of investment approaches such that high risk investments are balanced by lower risk investments with potentially higher financial return.

- Flexibility for interventions under JESSICA to influence the risk-reward calculation rather than its utilisation as a rigid equity investment. Flexibility in financial return requirements needs to take into consideration the principle that investing for private sector level financial returns may not provide the required additionality over the market to achieve wider sustainability and growth objectives.

The focus of National Strategic Reference Frameworks (NSRF) and Operational Programmes (OPs and ROPs).
• The current strategic and policy context for regeneration and urban renewal in the UK was established by the publication of the UK government Urban White Paper in 2000. This identified a range of measures (policies, programmes and financial incentives) to foster and support an urban renaissance across the UK. The White Paper led to the formation of Urban Regeneration Companies and Business Improvement Districts, as well as recommending specific regeneration roles for the Regional Development Agencies.

• The Urban White Paper in turn led to the development of new strategic and policy approaches to the regeneration and redevelopment of deprived areas. These initiatives were reinforced with the publication of the State of the Cities Report in March 2006, which provided performance assessment and evaluation data on 56 Primary Urban Areas in England (covering cities and city-regions) addressing their contribution to national success and establishing a comparative baseline for future evaluation. This report has provided new focus for redevelopment and economic growth in urban areas.

• With the aim of reducing the rate of growth of the gap in average economic performance and growth rates across the English Regions, the UK government has supported three inter-regional growth strategies - The Northern Way, Smart Growth: The Midlands Way, and The South West Way. There has also been a series of changes and improvements in the planning system to create a more flexible environment at regional and local levels to facilitate economic growth and redevelopment. This has included the development of Regional Spatial Strategies, bringing together spatial aspects of a wide range of programmes.

• As policy continues to develop, the UK government has promoted an increased focus on sustainable communities. This complemented the Urban White Paper and seeks to provide the wider framework in which urban policy can operate. Following further policy review of achievements to date, the government launched the Mixed Communities Initiative in 2005 with the aim of creating neighbourhoods with a more sustainable mix of tenures and incomes and addressing problems of worklessness, skills, crime, poor environments and poor health in some of the most disadvantaged communities. UK policy has also been increasingly influenced by new developments in regional policy within the EU.

The potential for JESSICA and likely demand.

• The process of change in the UK urban regeneration and renewal market has seen an increased focus on urban priorities - particularly urban centres - whilst taking a more holistic and sustainable approach to supporting mixed communities. This is done by linking together improvements in housing, education, health provision, and the environment. This, in turn, is driving the development of new, potentially innovative, mechanisms and structures for funding regeneration and urban renewal – the key potential market opportunity for JESSICA.

• The UK market analysis and consultations highlighted that a key challenge for JESSICA will be to ensure that its targeted activity complements existing and planned interventions in the urban sector. Within the UK there is no apparent shortage of either private sector funding or expertise in delivery – subject to the availability of sufficient viable investment opportunities.

• The ability of the UK market to continue to respond/develop new solutions to structuring regeneration investment and developing new funding sources suggests that more...
innovative funding from JESSICA (e.g. equity approaches) would be capable of being adopted and could therefore be of real impact.

- The issues identified during consultations with practitioners and the case studies point to various options – but with no consensus – in which JESSICA could be positioned within the regeneration/urban renewal market place, to both achieve its objectives and maximise its input and impact. The options are best described in diagramatic form, as follows:

JESSICA is best positioned as a diagonal line linking grant funding and market return in the diagram. The potential forms of financial intervention are identified on a continuum on the left hand side of the diagram. In terms of policy context for priority spatial areas this is illustrated by the relationships with and between Area Development Plans and spatial areas for support, including Assisted/Non-Assisted Areas in the UK and the Cohesion Areas elsewhere in the EU. The structure of financial returns and the ability to secure sufficient and appropriate returns for both public and private participants are identified on the continuum from no market to a market return on the right side of the diagram, and the red dotted line highlighting where a required rate of return might be achieved.
The case studies...operational context, important findings and questions left unanswered.

- In the report, the key issues identified have been categorised through the case studies into themes addressing the strategic context, potential market gap/failure to be addressed, potential structures for delivery and mechanisms for securing returns:
  - Strategy or Policy Framework:
    - It is important to have a strategic plan to provide focus and clarity, and to understand what its status is particularly in regulatory or “legal” terms.
    - Community participation and a more holistic approach to regeneration and urban renewal are important to enable inclusion of public realm and other infrastructure development activities and “buy-in” of private sector investors to fund these as part of a larger development.
  - Market Gap or Failure:
    - The ability to secure funding to cover infrastructure requirements is considered the key issue, and a barrier to development.
    - The majority of projects need to secure working capital, and therefore there is a need for grants to make things happen in the early stages.
    - Consultees indicated that, in their experience, institutional private sector investors have tended to say one thing early on, but were not always able to deliver on the funding when it came down to final terms. They tend to therefore be more risk averse at this stage than expected.
    - Front-end investment is the difficult issue. It is less attractive to potential investors, as it is considered more risky and reduces the potential level of return that can be secured.
    - There is a need to develop an approach which addresses public sector inertia and differences in culture and approach between the public and private sectors.
  - Structure of Returns:
    - It is important to clarify the position in terms of State Aid.
    - Whilst there is a need to consider a range of financial mechanisms to encourage private sector investment, it also important to ‘protect’ public investment and return.
    - Achieving an up-lift in publicly held land/property asset values is key to securing investment.
    - There is need for clarification of how to address any issues related to the treatment of funding where the project doesn’t make a return.
    - There is a need to ensure that a balance of returns is achieved and this requires appropriate commitment and ‘buy-in’ from the private sector.
  - Governance and Structure:
    - There is a need for leadership and clarity of purpose and for strong management of delivery.
    - There is also a need for clarity and simplicity in terms of the structure of the delivery vehicle.
    - Partners need to be managed effectively to ensure commitment over the long term to vision and wider objectives – and to avoid a focus on short-term return.
There is a need to identify what extra value/benefit will/can be achieved, and over what period, coupled with the understanding of the issues which could prevent this from happening.

Contractual and legal requirements should not restrict, inhibit or stifle potential and thereby reduce benefits.

The need to secure local knowledge and appropriate commitment is considered crucial.

One must carefully consider the projected lifespan of the UDF. This needs to be long enough to implement the development and secure the return and achieve recyclability of funds.

Key issues that need to be addressed to take the initiative forward.

- A number of key messages and issues, at least within a UK context, have been identified for further consideration in terms of the implementation of JESSICA.

- JESSICA should intervene where there is market weakness or failure leading to a lack of appetite by the private sector to invest and where a specific public sector ‘need’ has been identified.

- JESSICA should complement other public delivery approaches and add value.

- Although there is clearly a need for an appropriate integrated development plan to ensure consistency of approach, the issue is what form that should take, what areas/sectors it should cover, and what legal ‘status’ it should have. Following consultations with market practitioners, there appears to be no consensus on the type or form of coverage these should take.

- There is a need to determine the definition and scope of UDFs. Again there is no consensus here as to whether they should operate at a national, regional or city level, or perhaps be either thematic or sectoral in focus, with arguments for and against each option.

- Management/Governance arrangements for UDFs will need to address finance and management expertise within the same structure.

- State Aid issues need to be addressed as a priority if JESSICA is to be viable.

- There is a need for the EU Commission to produce ‘Interpretative Notes’ that provide appropriate guidance to operators of UDFs and applicants for JESSICA funding on all of the above issues.
The national context and pattern of urbanisation.

- The Netherlands is a highly urbanised country with a few large cities, by international standards, interacting with many medium and smaller-sized towns to create urban networks. Government policy, at both national and regional levels, is highly geared towards densification and intensification of urban areas.

- With decades of experience, the revitalisation of urban districts, old industrial areas or derelict housing estates has proved to be an effective instrument for upgrading a city’s quality of life and appeal for residents, consumers, entrepreneurs and investors alike. However, urban regeneration has always proved to be a complex and costly process.

- Since 1994, the Netherlands has adopted a specific national urban policy, called the Grote stedenbeleid (GSB). This started with 4 major cities, but now covers more than 30 urban settlements. It is currently in its third phase which extends to 2010. The GSB, coordinated by the Ministry of the Interior, focuses on integrated urban development, including social policy, economic and employment policy, housing and physical regeneration, safety, etc.

- The national urban policy entails government grants for local authorities, housing corporations and other social and cultural stakeholders for investments in all kinds of necessary activities and plans for regenerating 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.

- There is substantial experience in the Netherlands on how to involve the private sector - mostly developers - in the financing of urban regeneration projects and, albeit to a lesser extent, in the sharing of risks and benefits in the form of PPP type structures.

The need for urban intervention and current investment programmes.

- With its complexities, both social and financial, urban regeneration often requires substantial public sector investment, and subsidies prove necessary for the successful completion of the process and to produce lasting benefits for the community.

- Market failure justifies public sector investment in urban regeneration in the Netherlands. The extent of this market failure differs between regions, cities, sectors and segments. Often, public sector funds are needed to overcome ‘profitability gaps’ and to “kick start” project implementation.

- In the Netherlands, the key components of urban development that usually require public sector funding are initial land and building acquisition, remediation or decontamination costs, social housing refurbishment or construction, as well as “non-profitable” elements that do not generate money directly by themselves, such as infrastructure, public space, green areas/parks, utilities, and socio-cultural facilities.

- In addition, the investments needed upfront are usually relatively high, whilst the benefits, in form of either financial or economic return tend to only build up over substantial periods of time. This time lag requires funding as well.

- Working with integrated urban development plans in the Netherlands is considered to be the norm, at both a programme and project level.

The focus of National Strategic Reference Frameworks (NSRF) and Operational Programmes (OPs and ROPs).
• Structural Funds play a relatively important role in fostering city investment in the Netherlands and, in comparison to other EU15 Member States, the country has previously allocated a relatively large proportion of its “Objective 2” funds to urban development.

• Currently, there exists a specific Objective 2 programme for 11 Dutch towns and cities. The Community Initiative URBAN2 operates in Amsterdam, Rotterdam and Heerlen. Meanwhile, ESF is allocated all over the country, and is used quite a lot in the major cities, for educational programmes, skills development, etc.

• The Structural Funds available to the Netherlands for the new financial perspective 2007-2013 amounts to some EUR 1,7 billion.

• It is estimated that a total of between EUR 250 and 500 million of ERDF will be allocated to the urban priority in the Netherlands, which includes related OP elements such as SME development and clean urban public transport.

• The Netherlands has chosen to appoint 4 managing authorities, regionally divided. They have all explicitly incorporated an urban priority in their Operational Programmes. For the West region, the urban priority is the most important, and has been allocated an ERDF contribution of more than EUR 274 million over the new perspective period.

The potential for JESSICA and likely demand.

• In the Netherlands there is a major focus on urban development projects and the need for regeneration of city areas. Public and private sector participants use their own specific institutes for funding arrangements.

• Local authorities can either use funds available from their annual budgets or borrow money from the Bank Nederlands Gemeenten (BNG), a public sector bank, at relatively low interest rates and favourable conditions. The Dutch Waterschapsbank also provides funding to the private sector, whilst borrowing from private sector banks is less common.

• Important players in the Dutch urban regeneration market are the housing corporations. These public but independent and self-sustaining companies traditionally have significant investment needs to maintain their large housing portfolios and, in recent years, have also been increasing their investments into regenerating wider urban districts.

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

• Private sector investment usually comes in the form of a real estate developer that invests for speculative purposes. Financing for them, usually comes from private sector banks. Some of the Dutch banks also have property development arms of their own.

• The study suggests that there is no actual shortage of public, semi-public or even private investment funds for urban regeneration in the Netherlands.

• JESSICA might, however, allow for more investment to take place, by creating a more favourable investment business case for private sector investors.

• Another advantage might be that JESSICA allows for the creation of a revolving fund that effectively directs investment flows towards and within specific areas.
• JESSICA funds can also be invested “upfront”, in order to “kick start” investment and perhaps lower financial “carry” costs brought about by the often significant time lags involved in urban regeneration/renewal projects.

The case studies...operational context, important findings and questions left unanswered.

• The southern part of Rotterdam (Rotterdam Zuid) is an area with approximately 300,000 inhabitants. The area is located on the banks of the river Meuse with green areas to the south and a harbour to the east. The area has multiple social problems, including poor standards of living conditions, a growing lack of social cohesion and identity, and insufficient differentiation of the housing stock.

• Local housing corporations have joined forces with local and municipal authorities and the Rotterdam Development Agency (OBR) to address the problem. The commitment of all key stakeholders, including local schools, entrepreneurs, resident organisations, the police and social services was brought together to form an organisation called “Pact op Zuid” with an integrated vision/strategy for the area’s regeneration.

• Funding for the implementation Pact op Zuid comes from a number of sources: 5 housing corporations committed EUR 1.4 billion in addition to their regular maintenance expenditure, to be invested not only in housing but also in local amenities and the social agenda. The Rotterdam municipal authority has committed some EUR 170 million to be used for physical restructuring, with additional sums being made available for the delivery of economic and social programmes.

• The Pact op Zuid organisation has expressed a keen interest in JESSICA and the establishment of a UDF. It sees this as perhaps an opportunity to attract investment from private sector project developers and institutional investors.

Key issues that need to be addressed to take the initiative forward.

• State Aid issues/uncertainties run the risk of putting both public and private sector participants/investors off. It is therefore considered important to establish the “rules” in this respect and, where necessary, outline such issues to private sector players.

• Eligibility and scope are also perceived to be important. It is felt that if a Holding Fund or UDF would need to restrict its loan or equity investment activities to only certain elements/components of plans or projects, JESSICA will lose much of its potential appeal and effectiveness.

• There is a need to raise awareness through the involvement of an appropriate promoter of JESSICA. The appointment of a reputational player having a wide network of public and/or private financing activities within urban regeneration in the Netherlands may assist the marketing and increased use of the JESSICA initiative.

• Several of the Dutch Ministries are also interested. Suggestions have been made to have ‘pilot’ projects in several cities that are eligible for Structural Funds, perhaps combining this with national funds such as GSB. Several expertise centres, like the Dutch national knowledge centre for urban renewal (“KEI”), may also be interested in participating.

• It is considered that it would be highly favourable that JESSICA can exploit the more immediate use of ERDF monies under the N+2 regulations. There is therefore need for
increased awareness within both ERDF as ESF participant organisations about the opportunities that JESSICA and the use of UDFs bring about, in combination with a clear message of the do’s and don’ts with regard to the rules and regulations.
HUNGARY

Executive Summary

Consultant: ECORYS Magyarország Kft
Project Manager: Bernadett Bedőcs
Key Analyst: Pal Baross
Contact Details: ECORYS Magyarország Kft
H-1114 Budapest
Kemenes u. 6
Hungary
Tel: +36 1 266 2482
Email: bedocsb@ecorys.hu
The national context and pattern of urbanisation.

- Hungary is a mid-sized central European country of some 10 million people. Following a series of difficult economic adjustments in the beginning of the 1990’s Hungary, like the rest of the former socialist countries in the region, enjoyed a period of sustained economic growth, with GDP growth being twice that of the EU average.

- With its “primate city” structure - Budapest and its metropolitan region being ten times as populous as the second largest city - Hungary is unique in the region. The capital city is even more dominant when one surveys the distribution of the country’s productive wealth, educational and cultural facilities. Other countries tend to have a more balanced urban hierarchy and therefore more evenly distributed urban issues.

- Hungary is largely urbanized, the people who live in the 289 cities and towns, which constitute the country’s urban network, account for about 2/3rds of the population. International migration is practically non-existent and intercity migration is also low. Hungarian cities tend to have either stable or slightly reducing populations.

- Budapest and the so called “secondary cities” remain the engines of economic growth for the future. There is a significant shift in employment structure towards the tertiary sector, with growth in the banking, business support, retail and related service industries.

- As with most of Western Europe, Hungarian cities are therefore becoming “de-industrialized”, exposing vast areas of brownfield sites, and putting pressure on central city locations for new office space, and suburban areas for retail and housing developments.

The need for urban intervention and current investment programmes.

- Hungarian cities, like those in other former socialist countries, have “inherited” urban problems of decaying inner city housing stock, contamination of former factory sites, and inadequate public infrastructure that includes an ageing public transport system.

- Hungary’s successive governments, until now, have not identified an “urban agenda” and have therefore not developed policies specifically aimed at cities or urban problems. Investment programmes are usually, therefore, ad-hoc sectoral initiatives, addressing only one dimensional objectives, with such programmes rarely surviving government changes.

- The decaying inner city housing stock is particularly acute in Budapest. Its development, as tenement housing, dates back to the turn of the 20th century. Many of the housing units are now considered as “sub-standard”, having either too small or too few rooms, or a lack of basic amenities. Concern for the renewal of these areas arose in the early 1980s, and in recent years a number of area-based projects were initiated that included renewal programmes, as well as selected demolition and rebuilding work.

- There are pockets of sub-standard housing areas in secondary cities too, but their size and impact on the overall quality of urban life is insignificant when compared with those in Budapest.

- A number of government programmes were also initiated specifically to improve technical deficiencies in the housing stock and there is now a good “take up” from both local authorities and residents. The “panel housing assistance programme” is a good example of combining central government subsidies and private sector investment (both equity and loan financing).
Brownfield sites in Budapest and other previously industrialised secondary cities, are recognised as both urban and environmental problems. Specific public sector funding for the rehabilitation of these areas is lacking. There is, however, some private sector interest to develop retail projects which have significant land requirements, on such sites.

The focus of National Strategic Reference Frameworks (NSRF) and Operational Programmes (OPs and ROPs).

- Hungary will enjoy a large allocation of Structural and Cohesion Funds in the 2007-2013 financial perspective and the government is preparing to make the best use of these resources.
- For the first time, the urban sector appears as a separate policy focus and priority element within the Regional Development chapter. The policy acknowledges the leading contribution that “liveable, efficient, competitive and cooperating” cities can play in stimulating regional development, and that a well-balanced settlement network is essential in achieving balanced national development.
- The “Integrated City Development Strategy” is designed to allow cities to enhance their economic, social and environmental sustainability, as well as contribute to the development of the region as a whole.
- The Economic Development Operational Programme, Central Hungary Operational Programme as well as the Regional Operational Programmes list those interventions that can be bundled into an urban renewal project, such as commercial and economic redevelopment, environmental improvement, labour force and micro/small enterprise support programmes.
- In response to EU guidelines, the concepts of integrated planning, sustainability, multi-year planning, inter agency and inter jurisdictional cooperation, financial engineering, and public/private partnership are appearing as policy and programme requirements. Whilst these are still very much at a conceptual stage, the assessment is that their absorption into project preparation and implementation looks promising.

The potential for JESSICA and likely demand.

- There appears to have been no systematic assessment yet made in Hungary of the balance required between the redevelopment of urban brownfield sites and the use of greenfield sites for development. Neither has there been any assessment made of the relative attractiveness and required mix of public versus private sector financing resources to meet this development objective.
- JESSICA is perceived as a financial engineering instrument available for the regeneration of run down neighbourhoods, inner city business areas, and dilapidated industrial/warehousing brownfield sites, using public money as a leverage to induce private sector investment.
- Projects will most likely to be a combination of:
  - public/social sector projects such as green spaces, cultural and exhibition buildings, government offices, and social housing; and
• Private sector led commercial projects such as hotels, conference centres, office accommodation, retail/entertainment/leisure centres and more up-market residential developments.

- Surveys undertaken for this report found evidence, in Budapest and some of the secondary and tertiary cities as well, that municipal leaders, private developers, neighbourhood groups and other NGOs are currently contemplating urban regeneration/renewal projects that might meet JESSICA’s objectives. It is unclear whether they would also meet its eligibility criteria. The majority of the projects seemed to be struggling to bring together the above mentioned stakeholder interests, and also lacked a balanced, integrated approach.

- The strongest demand for JESSICA funding will undoubtedly come from the Budapest Municipality and, perhaps even independently, from some of its Districts. It is here that substantial urban renewal experience provides the necessary project identification and implementation skills required. Examples of the positive effects that urban renewal can generate in Budapest also provide “living proof” that the concept can work in practice. Another positive factor is the existence of international real estate developers and investors who seem to be looking for larger and wider scoped project opportunities.

- Secondary cities may also represent potential, but project volume is likely to be much smaller here, combined with lower levels of project preparation and implementation skills. Smaller project scope, along with strong public sector leadership in some of the smaller cities may, however, compensate for these weaknesses.

The case studies...operational context, important findings and questions left unanswered.

- Hungary was analysed from a national perspective, and the focus was both historical and institutional. Urban problems can partially be traced to urban settlement patterns that exist in Hungary, and partially to the impact that the move from a “planned” to market economy has had on the speed and direction of urban land use restructuring.

- Institutionally, the policy framework has been evolving in response to these urban issues, moving from a predominantly sector-based funding approach towards an integrated approach that is more in line with EU urban policy.

- The need for urban renewal is most clearly felt in Budapest. Its size, economic growth and modernisation over the past fifteen years has resulted in pockets of dilapidated housing and segregated urban poverty.

- Initially it was the political leadership of the Budapest Municipality that recognised a need for social urban renewal, and formulated an operational policy framework - based on action areas - that allocated funding accordingly. Whilst the framework had a clear social objective of improving the housing conditions of low-income families, its development instrument was only physical in nature.

- In the secondary cities the urban renewal initiatives have been more isolated, focusing on city centre civic projects, aiming to enhance the commercial viability of their historic heritage and contributing to the potential attractiveness of the city as a tourist destination. This “civic” focus is even more pronounced in the projects promoted by the smaller cities.

- The key findings of the case study research were:
Unlike the other Hungarian cities, Budapest has some significant practical experience in identifying and implementing urban renewal projects;

- Hungary has a weak inter-governmental institutional framework for identifying and implementing integrated urban projects;
- In Budapest there are working examples of specialised municipal development companies that plan, programme and implement increasingly complex urban renewal projects. These companies are now actively seeking EU and private sector financing, both equity and loans, to fund their projects.
- The demand for JESSICA will increasingly be led by the “value added urban regeneration” initiatives in Hungary. There is, however, little by way of financial engineering skills and experience, and there is also still an uneasy relationship between public and private sector players.

Key issues that need to be addressed to take the initiative forward.

- The Hungarian case study clearly demonstrates that implementation of JESSICA will need to take account of country specific urban realities, public and private sector skills and experiences gained in implementing urban renewal programmes, and the institutional preparedness.
- The following have been identified as key issues that need to be addressed in taking JESSICA forward:
  - Eligibility for JESSICA funds, driven by the need, in Hungary, to address urban poverty and residential segregation, along with PPP initiatives designed to revitalize the commercial attractiveness of cities.
  - Defining feasibility and sustainability as more and more stakeholders focus on the “value added” impact of urban renewal/regeneration.
  - Defining an operational concept of “integrated urban planning” derived from the need to coordinate the economic, social, environmental, spatial and architectural aspects of development.
  - Transfer of knowledge and the provision of technical assistance, due to a lack of skills, particularly in smaller cities, in preparing and implementing urban renewal projects. JESSICA may need to facilitate a knowledge share across cities in order to stimulate the process of “take up” as well as to enhance the prospects of successful project implementation.
  - Administration of JESSICA at a national or regional level. A national structure would more closely resemble a traditional “central government policy” initiative and might also offer a greater regional diversification of risks for private sector investors/financiers. A regional structure is more likely to better respond to the priorities set by the regional operational programmes and local needs.
  - Recruitment of experienced fund managers.
ITALY

Executive Summary

Consultant: Ecosfera (lead consultant in partnership with Sercam srl)
Project Manager: Simone Marchesi
Key Analyst: Simone Marchesi
Contact Details:
Ecosfera
00182 Roma
viale Castrense 8
Italy

Sercam srl
00187 Roma
via di Porta Pinciana 34
Italy

Tel: +39 06 706081 (Ecosfera) and +39 06 42011150 (Sercam srl)
Email: smarchesi@sercamsrl.it
The national context and pattern of urbanisation.

- Because of its long history as a fragmented country, Italy is characterised by strong local identities and by a complex but relatively balanced urban layout. Reinforcing polycentricity in Italy is mainly a matter of strengthening and making more efficient already existing regional urban networks.

- The “Urban renaissance” process started in the early 1990s with the introduction of a new local electoral system - giving more powers to mayors - and of “integrated planning/programming” procedures, is gathering momentum.

- Due to the delayed impact of globalisation on Italian manufacturing, particularly on the high-craft and luxury sectors, the country’s economy is moving towards a services and knowledge based model relatively late, when compared to its Western European neighbours. Italy’s larger and/or more strategically located cities are increasingly becoming the drivers of innovation and economic change.

- An administrative and political devolution process is underway. Following amendments to Chapter 5 of the Constitution (2001), Italy’s 20 Regions have become the institutions in charge of regulating planning activities at both a local and regional level.

- A national framework law, providing guidelines for the Regions’ legislative activity in the urban sector, is still missing. Two bills are currently awaiting discussion in Parliament.

- In recent years, planning procedures have been simplified and made more flexible, integrated planning is no longer an experimental procedure but a prevailing protocol in the majority of Regions.

- Urban plans of the “new generation” consist of both a structural component - listing the primary long-term transformation objectives - and of a more flexible operational component that provides guidelines for the transformation of areas ripe for development.

The need for urban intervention and current investment programmes.

- Since the early 1990s, integrated urban regeneration/renewal plans have been co-financed with substantial public grants, mainly via national initiatives promoted by the Ministry of Infrastructure, or so-called “Programmi Complessi”.

- As part of the overall effort to rehabilitate public finances, state grants in the urban sector have been considerably reduced in recent years. The latest “Programmi Complessi” were launched with modest public sector financial endowment and are mainly aimed at supporting innovative urban and regional planning/programming, as well as testing new forms of non-grant financing for the development of local government initiatives.

- While the URBAN 1 and 2 initiatives have been very successful in bringing about radical urban transformation in Italian cities, mainstreamed Structural Fund support for urban regeneration in Objective 1 areas has produced relatively modest results due to the overall failure of managing authorities (Regioni) to concentrate and integrate investments.

- Most Italian cities still have a large number of abandoned former industrial sites in semi-central locations awaiting conversion. This is due to a combination of factors:
  - in most parts of the country the downsizing of manufacturing has been a slow and relatively recent process;
the regeneration and conservation of historic city centres has absorbed a very substantial share of public and private investment in the urban sector over the last 30 years;

up until recently, very few restrictions existed on new “greenfield” developments.

The focus of National Strategic Reference Frameworks (NSRF) and Operational Programmes (OPs and ROPs).

- Italy has followed European Community recommendations regarding the need to coordinate the programming of Structural Funds with national funds earmarked for Cohesion Policy - *Fondo Aree Sottoutilizzate* (“FAS”).

- In 2007-2013, Italy will receive Structural Funds amounting to approximately EUR 25 billion. 75% will be for Convergence Regions (plus Basilica which is in statistical Phasing-out), 22% to the Regioni for the Competitiveness and Employment objective (including Sardinia which is in phasing-in), and the remainder for European Territorial Cooperation. The FAS for the same period amounts to some EUR 60 billion. Overall, the budget of Italy’s NSRF for the 2007-2013 period (Structural Funds, national co-financing and FAS) will be more than EUR 100 billion.

- The budget of the NSRF is divided into 10 “Priorities”. 7.2% of the budget is allocated to Priority 8 “Competitiveness and attractiveness of cities and urban systems”. Investments indirectly benefiting the urban sector will presumably also come from other priority budgets, such as those for “Networks and Mobility” (accounting for 17% of the budget), “Production Systems and Employment”, and “Social Inclusion, Quality of Life, Safety”.

- The financial resources earmarked in the NSRF for the urban sector will be managed by the Regions, and most of it by those in the South. In the 2000-2006 period, their ROPs have not been successful in promoting or implementing the larger urban regeneration and renewal projects.

- All the 2007-2013 Regional Strategic Reference Frameworks produced by the Regions of the South stress the importance of the role that urban areas can play as engines of economic growth and socially sustainable development.

The potential for JESSICA and likely demand.

- In Italy, *Società di Trasformazione Urbana (STUs)* are fund-based investment models in the urban sector that closest resemble a UDF. The STU mechanism was introduced in national legislation over 10 years ago, but very few STUs have actually been set up. This is due to:
  - local authorities’ general lack of entrepreneurial and negotiating skills,
  - the public sector’s general reluctance to adopt financial mechanisms that are both complex and flexible, and to manage relationships with a variety of private sector partners.

- Other forms of PPPs have proved more popular, particularly for project financing (a mechanism similar to the UK PFI model), but this has been used mainly for the development of infrastructure or public facilities. Only recently has project financing been tested, with reasonable success, as a financing mechanism for more complex urban operations.
• Italian cities borrow heavily to finance investments. Preferred borrowing mechanisms are the issue of local government bonds or bank borrowing (mainly EIB - Framework Loans, Cassa Depositi e Prestiti, Dexia Crediop).

• The demand for financing mechanisms like JESSICA is expected to be:
  o potentially greater in the Centre-North (Competitiveness and Employment Regions) where local authorities have generally stronger, more pro-active administrative structures and where very little public sector funding will be available for investments in the urban sector in the new programming period;
  o generally lower in the South (Convergence and Phasing Out Regions) where large amounts of public grants will be made available from both Community and National Cohesion funds, and where local authorities are less inclined to experiment with forms of public investment “recycling”. Nevertheless, here too, some municipal authorities with implementation capacity and ambitious urban development agendas could show a special interest in JESSICA’s financial engineering mechanisms.

The case studies...operational context, important findings and questions left unanswered.

• The city of Terni has developed considerable experience in the field of integrated planning. The city has implemented a number of regeneration operations coherent with a general long term masterplan for the enhancement of its assets and for the improvement of its overall attractiveness and competitiveness. Recently the process of drawing up the city’s Strategic Plan in parallel with the development of the SISTeMA national initiative has produced a set of additional integrated projects that are potentially ready for implementation. The municipal authority has the capacity to manage innovative practices and could find JESSICA’s mechanisms particularly interesting as Umbria’s cities are set to receive little in the way of public grants for investments in the urban sector for the 2007-2013 period.

• The case of Napoli Est (a large former industrial precinct ready for conversion) demonstrates a clearly defined regeneration strategy having potentially enormous positive repercussions on the whole of the eastern part of Naples’ metropolitan area - one of Italy’s most deprived urban localities. Nevertheless, due to the area’s specific socio-economic situation Naples’ municipal government has ruled out the constitution of a UDF for the transformation of Napoli Est, showing that in some locations JESSICA mechanisms might not be politically suitable for carrying out ambitious regeneration projects, regardless of whether they make financial sense.

• The city of Benevento could be a particularly suitable location for a JESSICA pilot in Southern Italy. The city has both the potential to attract substantial Structural Fund resources and its administration has the capacity to successfully carry out an ambitious urban transformation programme to improve the economic performance of the urban region as a whole. Opportunities for a successful implementation of JESSICA within a relatively short period of time should be given priority. Establishing/identifying best practice in Italy’s “Convergence” areas is considered fundamental to the future success of JESSICA in those regions that still have access to substantial public grant support.

Key issues that need to be addressed to take the initiative forward.
• It is recommended that, prior to any “roll out” of JESSICA in Italy, a carefully structured pilot phase should be undertaken. Such a pilot phase should be aimed at producing success stories that may trigger a “virtuous emulation” process. Careful selection of the cities to be involved in the pilot phase is therefore extremely important. They should have:
  o good institutional capacity and dynamism, as well as a willingness to be innovative;
  o excellent planning capacity, and preferably with a pipeline of urban projects ready for implementation; and
  o a supply of sustainable urban projects within integrated plans, suitable for JESSICA type financing mechanisms.

• It is also considered important that such a pilot phase be promoted at the highest level, in order to dispel any cultural resistance or unsubstantiated scepticism. It is suggested that such an initiative be strongly supported by the European Commission and EIB, and should be coordinated at national level by an institution that has sufficient experience of urban renewal/regeneration processes. Italy’s Ministry of Infrastructure would be an obvious choice in this respect.

• Direct involvement of the Regions in a pilot phase should be carefully assessed as Italian Regional Governments tend to spread resources across local authorities, rather than concentrate them. This may jeopardize the selection of suitable pilot candidates.

• JESSICA implementation models that make use of financing resources from OPs could quickly lead to the development of a number of successful practices. These could be used as a model for the subsequent “roll out” of JESSICA at a regional level.
# POLAND

## Executive Summary

**Consultant:** Freelance contractor  
**Project Manager:** Dagmara Mliczynska-Hajda  
**Key Analyst:** Dagmara Mliczynska-Hajda  
**Contact Details:** PL 44-100 Gliwice  
Kochanowskiego Street 2 App.3  
Warsaw  
Poland  
Tel: +48 601 401 441  
Email: mliczynska@wp.pl
The national context and pattern of urbanisation.

- As at the end of 2005, there were almost 2500 communes and some 890 municipalities in Poland, with an urbanisation rate of just over 60%.
- The urban structure is polycentric. 75% of Polish cities have a population of below 20,000, and these, together, account for just over a 1/3rd of the country’s total population. About 15% of Polish cities are medium-sized (i.e. population between 20,000 and 50,000). 18 cities are inhabited by more than 200,000 people which, together, account for another 1/3rd of the Polish urban population.
- The cities are elements of a three-tiered system of territorial local government - communes, districts and regions. A local self-government system identifies the commune as the basic and the strongest element of the local government structure. The municipalities, or city communes, have no specific principles defined to enable the planning, programming or financing of urban development projects.
- Most of the Polish cities have adopted strategic plans, which were prepared in the early 1990s. These have been updated and further developed according to specific city needs. Strategic planning for the cities, however, has not followed a standardised format. Polish cities are not required to submit formal development strategies, and the scope of urban development, methods of implementation, and monitoring thereof are also not formalised.
- “URBAN POLICY – revitalisation and development, conceptual study for urban development in Poland”, prepared in the summer 2006 by the Ministry of Regional Development, is the country’s first comprehensive study addressing urban development issues. It presents the concept of urban policy enhancing “urban creation”.

The need for urban intervention and current investment programmes.

- The first programmes of urban renewal and regeneration in Poland date back to the early 1990s. There are currently about 70 cities that are undertaking planned, long-term work aimed at regenerating those areas which are considered to be of key importance for their urban development.
- Poland has gained extensive experience in planning integrated functional spatial transformations, as well as urban regeneration but, because of a lack of financial resources, implementation proceeds very slowly.
- Apart from insufficient funds, another obstacle identified is the lack of legal and organisational structures required to both set procedural standards and afford the regeneration and development programmes the status of specific, promoted and supported instruments of development.
- At least 100 Local Regeneration Programmes (“LRPs”) prepared by municipalities have been identified from the research supporting this study. The programmes contain analysis of social, economic, infrastructural and technical (spatial) aspects. Those regeneration programmes already implemented highlight the need for integrated programming and planning.
- In 2006 the average share of expenditures planned by the cities to finance regeneration was some 12%.
- Investments undertaken in cities, including development oriented measures such as regeneration, are either initiated and implemented by the municipal authorities and
financed by the city, or initiated, undertaken and financed by the private sector. Although the first PPPs date back to the mid-1990s, their success has been hindered primarily by a lack of clear and transparent objectives being set by both sides.

The focus of National Strategic Reference Frameworks (NSRF) and Operational Programmes (OPs and ROPs).

- With the focus of the Polish NSRF being the Lisbon Strategy, there is no specific priority, at present, given to the integrated regeneration and development of cities.
- The recently adopted NRSF and National Development Strategy, however, indicate that the government regards urban development principally as a component of regional policy.
- The urban issues are addressed in Regional Operational Programmes (ROPs), where appropriate priority axis can invariably be found.
- Development of an integrated urban strategy to better assist the urban policy and development measures undertaken by local governments has been requested by municipal associations such as the Union of Polish Cities and the Polish Metropolitan Union.
- The Concept of National Spatial Development assumes the progressive concentration of population and infrastructure in urban agglomerations. Small and medium sized cities located outside the “reach” of the bigger cities may experience an outflow of economic functions, resulting in reduced municipal revenues, decreased investment potential and the ability to generate local development impetus of a scale necessary to overcome this regression.

The potential for JESSICA and likely demand.

- There appears to be no tested means of evaluating the investment value of the market. Taking the LRPs as a proxy, one might assume an estimated annual value of some EUR 700 million of public sector investment.
- The ability to implement a market-oriented financing instrument, such as JESSICA, for urban regeneration and development in Poland looks both feasible and attractive.
- Experience of SME sector fund of funds in Poland shows that a Holding Fund structure would probably be the optimal implementation vehicle, with UDFs operating at either a national or regional level.
- Such an instrument might quickly become an efficient and sustainable tool for urban development projects, especially those concerning regeneration.
- The effectiveness of the JESSICA initiative in Poland, however, will depend on whether modifications can be made to the decisions taken with respect to the already prepared NSRF and national operational programmes, and particularly the “Infrastructure and Environment” operational programme. It seems that such a possibility exists for as long as the process of reaching agreement on the NSRF and operational programmes, between the Polish government and the European Commission, remains incomplete.

The case study...operational context, important findings and questions left unanswered.

- Case studies in Poland were analysed in two regions:
o Śląskie- the region with the highest urbanisation index in Poland (78%), second in terms of population size, having the greatest number of municipal communes (167 of which 49 are municipal), highly industrialised, highly rated in terms of investment attractiveness and having a good support network of developmental organisations. The ROP has a priority entitled “balanced urban development” receiving an allocation of almost EUR 280 million, or 13% of the total.

o Opolskie - a region having a relatively low urbanisation index (51%) with low number of municipal communes (3 out of 71), an agricultural and industrial region having a medium/low investment attractiveness classification. The region’s development strategy defines a significant role for the cities in the development processes, introducing a hierarchy of urban centres based on their importance in development of the region. The ROP has an extensive priority entitled “revitalisation” which receives an allocation of some EUR 40 million, or 8% of the total.

• The conclusions in each of the case studies show that the initial approach of regions to the assessment of JESSICA’s usefulness is not dependent on the level of urbanization, the scale of diagnosed urban development, nor the scope of planned involvement of the regional authority in addressing urban development issues identified in their development strategies.

• Significant regional differences in the amount of allocated resources to a specific priority also had no bearing on the assessment of the usefulness of creating a JESSICA fund, although it was considered important in estimating the efficiency of such a fund’s operation in relation to the costs to be borne by the regional authority.

• Both regions had difficulty in understanding how the JESSICA model might provide additionality or complement conventional grant instruments. It was suggested that JESSICA funds might differentiate themselves from conventional grants by seeking to finance different types of projects or beneficiaries. This may, however, represent a challenge in formulating a UDF’s investment criteria, for example.

• In both cases, it was also clear that additional information on or clarification of the initiative was needed in order to better assess its usefulness or applicability. Investment in JESSICA type funds might even be interpreted as contrary to the local administration’s principal of “not for profit”. Related to this is a measurement problem of rates of return and suitable performance benchmarks, etc.
Key issues that need to be addressed to take the initiative forward.

- Whether ERDF restrictions, specifically with respect to housing projects, might affect the scope of JESSICA and particularly the preparation of an integrated urban development plan for an area.

- The applicability of existing legal and organisational structures in Poland for adaptation as possible UDFs under JESSICA.

- The establishment of guidelines with respect to the nature and scope of an integrated urban development plan, as well as its relationship to already existing urban regeneration and development programmes of Polish cities.

- The legal form of the relationship between the various administrative in the perceived JESSICA structure, e.g. between Managing Authority and Holding Fund and/or UDFs.

- The nature of the transfer of ERDF resources to a UDF…should this be on the basis of a civil agreement or as a reimbursable grant?

- Whether a loan from a UDF be interpreted as own contribution of the beneficiary with the projects supported by the ROP or OP grant?

- How loans granted to a city by a UDF should be treated…as a reimbursable support or as a type of credit? If it is treated as a credit increasing the public debt, it will be counted into the debt threshold of the city. If it’s treated as a reimbursable support, the cities are likely to use this form of loan much more willingly.
Executive Summary

Consultant: Sedesa Concessions

Project Manager: José Pablo Rodríguez-Marin

Key Analyst: José Pablo Rodríguez-Marin

Contact Details: Parque Tecnológico
C/Narciso Monturiol y Estarriol 7-9
46980 Paterna
Valencia
Spain

Tel: +34 960 45 45 00
Email: jpr-marin@sedesaconcesiones.es
The national context and pattern of urbanisation.

- Three Spanish cities are within the top 78 metropolitan regions of the world: Madrid (50th), Barcelona (58th) and Valencia (64th). These three cities combined represent 40% of the country’s total population and contribute 35% of Spain’s GDP. Furthermore, they have a higher proportion of immigrants (more than 10% of total population) than the national average.

- Total population in Spain in 2005 exceeded 44 million. Between 1998-2005, the population rose by almost 4.3 million, i.e. an average annual increase of 1.5%, with an accelerating trend during this period that took the 2005 growth rate to 2.1%. These rates contrast with general demographic developments in the EU15, where the population only increased at an average rate of less than 0.5% over the same period.

- Both the construction and tourism sectors are very important in Spain. Construction represents more than 10% of GDP at a national level (in some areas, it goes up to 18.5%). As an indication of the sector’s significance, it is noteworthy that Spain built more dwellings in 2004 and 2005 than France, Germany and the UK combined.

The need for urban intervention and current investment programmes.

- Spanish municipalities are under intense pressure to allow for the construction of residential developments in greenfield areas, and there are numerous examples of construction projects having adverse effects on the environment. The extraordinary increase in housing prices has led to social problems. The central and regional governments have plans to increase investment in social and affordable housing for those on low-incomes.

- This situation in Spain is unsustainable in the longer term. Henceforth, renewal projects will need to represent a larger share of investment.

- There are a number of investment programmes currently underway in Catalonia (the focus of the Spanish study). Barcelona has used the Olympics to renew the waterfront area and the Olympic Village as a new residential area. The Forum 2004 operation has also been very useful in renewing this part of the town and to introduce commercial uses into the area:
  - Llobregat plan – primarily an infrastructure programme that includes the development of the port and the airport of Barcelona, new roads and railways and also logistic zones.
  - Barcelona city. Over the next few years, the Barcelona area will see the transformation of about 2,470 acres of land, with a plan to construct 7,000,000 square metres of commercial, industrial and office space.
  - The central and regional administrations have also created entities, such as the Zona Franca Consortium, ADIGSA or INCASOL to develop industrial or commercial land. Financial resources are, however, limited.
  - Barcelona Biomedical Research Park is an innovative and ambitious scientific project with the aim to promote Barcelona as a leading European biomedical research centre.
  - The Generalitat government and local councils remain concerned as to how to address the housing, employment and integration needs of immigrants. Several projects have been designed to promote their inclusion.
There is also high demand for social housing. The central government, the autonomous government (Generalitat), and local governments have agreed to invest almost EUR 70 million in the renewal of houses in the metropolitan area of Barcelona, as well as the construction of almost 900 social housing units in an area called “Terrasa”.

The focus of National Strategic Reference Frameworks (NSRF) and Operational Programmes (OPs and ROPs).

- Municipalities are responsible for most of the urban planning. A “General Plan” (Master Plan) dictates the development of second stage “Detailed Studies”, which result in “Building Permits”. Municipalities approve all of these urban regulations, except where they might result in changes to the “Metropolitan General Master Plan”, in which case approval of the autonomous Government (Generalitat) is also needed.

- Most urban developments are usually, but not always, exclusively under the control of the local authorities, that are also responsible for their implementation. Many of the cities, however, are experiencing challenging financial situations as most tax revenues are collected either regionally or centrally. To overcome this, some of them have created ad-hoc entities to develop certain areas (e.g. Procivesa in Barcelona for the Old Quarter, and Promusa in Sant Cugat).

- Barcelona relies heavily on grants and local taxes for a substantial part of its funding. This position is similar to other Spanish cities. As a result, demand for financial engineering in support of urban projects is considered to be high.

The potential for JESSICA and likely demand.

- Of the three administration levels in Spain (central, regional and local governments) the local governments are responsible of urban policies, but they lack sufficient financial resources. The main reason for this is that most tax revenue is collected by central and regional governments. Since local governments have significant social and infrastructure investment need, there is a lot of demand in Spain for appropriate financial instruments to improve the financial capacity of municipalities and private promoters.

- The use of JESSICA funds may assist in taking those urban development projects forward that, otherwise, may never be fully implemented. UDFs could, for example, be used in a context of fiscal austerity for the financing of large public sector projects using public-private partnerships (PPPs).

- JESSICA funds could also provide for the necessary financial and/or technical support for the analysis and development of PPPs, thereby facilitating/attracting private sector investment.

- In the following table different UDF-type alternatives existing in Catalonia are categorised.
The case study...operational context, important findings and questions left unanswered.

- One interesting example of the combination between public and private investments in Catalonia is the Port Vell project, which has had a big impact on the life, renewal, employment, urban uses and many other aspects of Barcelona’s attraction to residents and tourists. The surrounding areas of have also benefited - new apartments for residents, retail areas, banks and office buildings have been renovated/built close to the Port Vell area.

- Originally promoted by the Port Authority of Barcelona (APB) through a public vehicle called “Port 2000”, lack of financial resources significantly hampered project implementation at the start. Private sector investment was leveraged in (see table below) to accelerate and complete the project components.

<table>
<thead>
<tr>
<th>SPATIAL FOCUS</th>
<th>Single public institution</th>
<th>Mixed public institution</th>
<th>Public company</th>
<th>PPP</th>
<th>Non-profit</th>
<th>Co-operatives</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>National/regional</td>
<td>ICF</td>
<td></td>
<td></td>
<td></td>
<td>Plan Vivienda</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metropolitan</td>
<td>ATM</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal</td>
<td>Promusa</td>
<td></td>
<td>Glorias/ Diagonal</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specific URD area</td>
<td>Procivesa</td>
<td>Con.Costa Brava</td>
<td>Port 2000</td>
<td>Cilsa</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SECTOR FOCUS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public services</td>
<td>Incasol</td>
<td>Consorci Drassanes</td>
<td>Clabsa</td>
<td></td>
<td>Trambaix</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private oriented</td>
<td>CZF</td>
<td>WTCB</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social housing</td>
<td>Adigsa</td>
<td></td>
<td>Aede</td>
<td></td>
<td>Saving Banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SPV</td>
<td>La Sagrera</td>
<td>Tavasa</td>
<td>ALP 2500</td>
<td></td>
<td>Port Aventura</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Infrastructure</th>
<th>Amount</th>
<th>% Private Investment</th>
<th>% Public Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marina Port Vell</td>
<td>10.8 MM €</td>
<td>85%</td>
<td>15%</td>
</tr>
<tr>
<td>Aquarium</td>
<td>27.0 MM €</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>Maremagnum</td>
<td>36.1 MM €</td>
<td>62%</td>
<td>38%</td>
</tr>
<tr>
<td>World Trade Center</td>
<td>168.3 MM €</td>
<td>49%</td>
<td>51%</td>
</tr>
</tbody>
</table>

This is a very interesting case of a PPP, which has proved to be quite successful in Catalonia. What is demonstrated by the project is the collaboration effort between the three
administration levels existing in Spain, and the fact that a large infrastructure project, such as a port, can also be successful in stimulating the development of private sector services, restaurants, retail, entertainment, industry and specifically SME promotion/development. Some EUR 20 million of additional tax revenues (VAT and corporate) have been generated for the benefit of the public sector, and some 5,000 additional jobs were created as a result of this project.

Key issues that need to be addressed to take the initiative forward.

- Local public authorities need guidance and, as far as is practicable, via standardised processes for selecting and operating PPPs and UDFs. This guidance would be in the form of competition regulation, steps to be followed in identifying the most appropriate private sector partners, evaluating the effectiveness of the PPP/UDF options, and the diffusion of information to other local jurisdictions.
- The first stage to effectively implement the JESSICA initiative is to promote the creation of UDFs. If a Holding Fund is established, it is suggested that the HF manager - in close cooperation with national and regional authorities – could play a key role carrying out the preliminary work of identifying urban projects that might be eligible for JESSICA support.
- Once suitable urban development projects have been identified, the Holding Fund manager could assist in carrying out technical, economic and financial evaluation of projects.
- To facilitate such a process, the appointment of EIB as Holding Fund and/or HF manager is recommended.
APPENDIX C - MARKET POTENTIAL

A theoretical model based on what are seen to be the key drivers of the potential demand for JESSICA has been developed by Deloitte MCS Limited\textsuperscript{16} to estimate the possible size of the initiative’s market. JESSICA take-up in the respective Member States will be a function of a number of factors, of which the following are perceived to be pivotal:

- The need and plans for urban investment
- The maturity of the market for PPPs
- Policy priorities
- The capacity in the public and private sectors

Applying a set of relatively high-level assumptions to these factors, and given the size of the ERDF allocations in the respective constituencies, the model estimates that JESSICA will have an aggregate potential take-up of circa €90bn. This figure should be treated with caution, however, and simply provides a starting point for discussion, analysis and sensitivity testing of the key assumptions to provide a range of possibilities, rather than a definitive estimate. The methodology and results are set out in more detail in the following pages.

\textsuperscript{16} Project manager: Philip Holt. Key analyst: Matthew Spry. Contact details: Deloitte MCS Limited, 201 Deansgate, Manchester M60 2AT, United Kingdom. Tel: + 44 (0) 161 832 3555. Email: pholt@deloitte.co.uk
Estimating the Potential Scale of JESSICA

- Define criteria based on the drivers of JESSICA take-up and apply a weighting for each criterion (on a scale of 1-10).
- Score each Member State on a scale of 0-4 for each criterion.
- Calculate Potential JESSICA Pot (Structural Fund allocation for each Member State minus Cohesion Fund).
- Estimate the potential split between ERDF and ESF for each Member State (assume JESSICA will be predominantly ERDF).
- Apply weighted score as a percentage to the potential ERDF pot to give a theoretical potential for JESSICA.
- The approach to calculating a theoretical estimate of interest in, or take-up of, JESSICA is based on some very high level assumptions.
- It should be regarded as the starting point for discussions rather than a definitive estimate.
- It assumes:
  - Only ERDF will be used for JESSICA (we recognise that ESF may be applied) – this means a significant driver of the calculations is the assumed split between ERDF and ESF – some of which are not known at the current time.
  - That take-up will be a function of a number of factors – many of which are difficult to predict at the current time, and which can change over the programming period to 2013.
  - That certain factors are more important than others in determining potential take-up.
  - Limited factoring-in of member-state specific information regarding private sector financial flows and public sector match funding which may also comprise part of JESSICA holding funds, UDFs, or PPPs.
  - That there is no real underspend in any Member State.
- The estimates presented later in this report are simply the scale of Structural Funds that might be part of JESSICA – we make no estimates of the potential leverage that it might secure.
## Estimating the Potential Scale of JESSICA

<table>
<thead>
<tr>
<th>Weighting</th>
<th>Score</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need for Urban Investment</td>
<td>Very High</td>
<td>This is a significant factor for JESSICA as an instrument for delivering urban investment. A high need (lasting beyond the 2007-13 period) will act as a significant incentive for actively seeking to recycle funds.</td>
</tr>
<tr>
<td>Programmes for Urban Investment</td>
<td>High</td>
<td>Current programmes for urban investment are a sign of capacity to deliver future urban regeneration, infrastructure, and sustainable communities activity</td>
</tr>
<tr>
<td>Focus of the NSRF and Available Resources</td>
<td>Low</td>
<td>The focus of the NSRF can be a useful indicator of priorities, but the weighting is lower for this because a) not all NSRFs were made available to us, and b) they are in many cases on indicative in the way they set priorities for use of Structural Funds.</td>
</tr>
<tr>
<td>Maturity of PPP Market</td>
<td>Medium</td>
<td>The progress of the PPP market is a good indicator of potential take-up given that the UK (considered to be most aligned to JESSICA’s approach) is a very mature PPP market. However, the pace of change in this market and that undeveloped markets may change very quickly, hence the medium weighting.</td>
</tr>
<tr>
<td>Future Developments in PPP</td>
<td>High</td>
<td>Current market views on the future development of PPP are considered to be very important. Research by Deloitte and others points towards many Member States moving rapidly to develop PPP approaches in a short time frame.</td>
</tr>
<tr>
<td>Private Sector Capacity</td>
<td>Low</td>
<td>Private Sector capacity, and that of the financial institutions and developers will be significant deliverers of JESSICA-aligned programmes.</td>
</tr>
<tr>
<td>Capacity of Managing Authorities</td>
<td>Medium</td>
<td>Cost is considered in conjunction with the other factors but is rarely a differentiator</td>
</tr>
</tbody>
</table>
### Potential Scale of JESSICA in the EU15

Based on various assumptions, the potential scale of JESSICA in the EU15 is €45bn (32% of the total possible ERDF and ESF expenditure)

<table>
<thead>
<tr>
<th>EU16</th>
<th>Lux</th>
<th>Denmark</th>
<th>Ireland</th>
<th>Austria</th>
<th>Finland</th>
<th>Sweden</th>
<th>Ned</th>
<th>Belgium</th>
<th>UK</th>
<th>France</th>
<th>Greece</th>
<th>Portugal</th>
<th>Germany</th>
<th>Italy</th>
<th>Spain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Available ERDF/ESF Resources</td>
<td>€58</td>
<td>€544</td>
<td>€813</td>
<td>€1,297</td>
<td>€1,363</td>
<td>€1,678</td>
<td>€1,692</td>
<td>€2,014</td>
<td>€9,444</td>
<td>€12,70</td>
<td>€14,891</td>
<td>€16,326</td>
<td>€23,391</td>
<td>€25,682.83</td>
<td>€26,719</td>
</tr>
<tr>
<td>Need for Urban Investment</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Programmes for Urban Investment</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>NSRF Priorities and available resources for Urban Investment</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Maturity of PPP Market</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Prosperity for future ppp</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Private Sector Capacity</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Managing Authority Capability</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Total (unweighted)</td>
<td>12</td>
<td>15</td>
<td>24</td>
<td>19</td>
<td>18</td>
<td>17</td>
<td>24</td>
<td>16</td>
<td>22</td>
<td>18</td>
<td>13</td>
<td>15</td>
<td>21</td>
<td>15</td>
<td>21</td>
</tr>
<tr>
<td>Percentage of available resources likely to be ERDF</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>66</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Total JESSICA Pot</td>
<td>€12</td>
<td>€14.9</td>
<td>€343</td>
<td>€444.02</td>
<td>€418</td>
<td>€499</td>
<td>€718</td>
<td>€791</td>
<td>€3,641</td>
<td>€3,970</td>
<td>€3,723</td>
<td>€4,470</td>
<td>€8,981</td>
<td>€7,306</td>
<td>€10,417</td>
</tr>
</tbody>
</table>

---

Note: Based on EU Figures supplemented by series of assumptions
Source: EU / Deloitte Analysis
Spain, Italy and Germany have the largest potential for JESSICA

- Spain and Germany are both large recipients and are estimated to have a proportionately large propensity towards using JESSICA.
- Italy is also a large recipient of Structural Funds, but has a proportionately lower propensity for reasons given in the profile in Appendix 1.
- The other Member States with significant potential for JESSICA (even if this is down to their larger SF allocations) are Portugal, Greece, France and the UK.
### Potential Scale of JESSICA in the Accession States

Based on various assumptions, the potential scale of JESSICA in the Accession States is €45 bn (39% of the total possible ERDF and ESF expenditure)

<table>
<thead>
<tr>
<th>Accession States</th>
<th>Cyprus</th>
<th>Malta</th>
<th>Estonia</th>
<th>Slovenia</th>
<th>Latvia</th>
<th>Bulgaria</th>
<th>Lithuania</th>
<th>Slovakia</th>
<th>Romania</th>
<th>Hungary</th>
<th>Czech Republic</th>
<th>Poland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Available ERDF/ESF Resources (€m)</td>
<td>€ 386</td>
<td>€ 507</td>
<td>€ 2,034</td>
<td>€ 2,494</td>
<td>€ 2,720</td>
<td>€ 4,032</td>
<td>€ 4,053</td>
<td>€ 6,815</td>
<td>€ 11,547</td>
<td>€ 23,391</td>
<td>€ 15,828</td>
<td>€ 40,036</td>
</tr>
<tr>
<td>Need for Urban Investment</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Programmes for Urban Investment</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>NSRF Priorities and available resources for Urban Investment</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Maturity of PPP Market</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Propensity for future PPP</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Private Sector Capacity</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Managing Authority Capability</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Total (unweighted)</td>
<td>8</td>
<td>8</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>14</td>
<td>13</td>
<td>17</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Percentage of available resources likely to be ERDF</td>
<td>66</td>
<td>66</td>
<td>66</td>
<td>66</td>
<td>66</td>
<td>66</td>
<td>66</td>
<td>66</td>
<td>66</td>
<td>66</td>
<td>66</td>
<td></td>
</tr>
<tr>
<td>Total JESSICA Pot</td>
<td>€ 96</td>
<td>€ 104</td>
<td>€ 671</td>
<td>€ 623</td>
<td>€ 898</td>
<td>€ 1,331</td>
<td>€ 1,337</td>
<td>€ 2,343</td>
<td>€ 3,992</td>
<td>€ 9,833</td>
<td>€ 6,032</td>
<td>€ 17,321</td>
</tr>
</tbody>
</table>

*Note: Based on EU Figures supplemented by series of assumptions
Source: EU / Deloitte Analysis*
Potential Scale of JESSICA in the EU15

Poland, Hungary and Czech Republic have the largest potential for JESSICA

- Poland and Hungary both have large proportionate potential take-up of JESSICA, a function of:
  - high SF allocations
  - Significant need
  - Track records and potential for in ppp

- In other accession states, take-up is more limited by the ‘immaturity’ of PPP markets (albeit this can change) and less strong focus on regeneration/territorial attractiveness.

- A significant area is around infrastructure, including inter-regional transportation.
Potential Scale of JESSICA

The estimates should be regarded as at the high end and treated with caution

The figure of €90bn is just under a third of the total Structural Fund allocation, and should certainly be regarded as a high-end estimate. In practice, it could be much lower if:

- NSRF priorities in EU15 Member States are aligned further to ESF and Competitive economy agendas
- The bulk of major infrastructure programmes that dominate many NSRFs and national priorities (particularly in the accession states) are not funnelled through JESSICA
- There is insufficient capacity to drive through the legislative and financial framework and incentives to make the wider use of PPPs for urban investment in areas where this is not commonplace
- There is not a widespread change in culture away from pure grant-giving
- The incentive of earning interest through Holding Funds is not sufficient to drive demand for JESSICA
APPENDIX D - COUNTRY PROFILES

The following country profiles cover Member States with total ERDF/ESF allocations in excess of €5bn, and provide a summary of the Deloitte’s research on what are perceived to be the key drivers of the potential demand for JESSICA. The profiles are based on:

- published research reports
- discussion with experts in the respective Member States
- review of available NSRF documentation

Against this backdrop, the summaries represent snapshots of the current situation and the potential demand for JESSICA, and should not be regarded as comprehensive analyses of the situation within the respective Member States.\(^\text{17}\)

---

\(^{17}\) Because the Deloitte’s research focuses on PPPs, it addresses in the main the “equity model” developed in Section 3, and the findings do not include detailed analysis of planning and delivery capacity under a non-equity/purely public sector model. Consideration of the country profiles needs to be constrained accordingly.
Spain

Spain has a strong track record of PPP and of urban regeneration, which means a strong potential future role for JESSICA

<table>
<thead>
<tr>
<th>Current Programmes for Urban Investment</th>
<th>PPP Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain’s major cities have seen extensive regeneration activity in Barcelona, Madrid and Valencia. These have involved quasi public-private organisations. Govt has a €24bn infrastructure plan, including €32.5bn in urban areas.</td>
<td>A very strong track record of PPP in transport sector, and a reasonably well developed approach evolving in some other sectors, such as health. PPP is not widely acknowledged in the regeneration achievements of Spain’s major cities, and has not been part of social housing.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Focus of NSRF</th>
<th>Future developments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus on territorial attractiveness within an overall programme combining regional competitiveness and conversion.</td>
<td>Law introduced in 2003 has sought to provide a wider and clearer framework for PPP. Transport and major physical infrastructure will continue to be a focus.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Need for Urban Investment</th>
<th>Capacity of Public Sector</th>
<th>Capacity of Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>There remains significant need for urban investment flowing from continued high levels of urban deprivation. Whilst the urban cores of many Spanish Cities have seen regeneration and above EU-levels of Economic Growth.</td>
<td>Local government has had a strong role in delivering regeneration, and that and regional government, particularly in the major cities, has the capacity to take forward major regeneration. There is nevertheless a need to generate more experience of regeneration PPP.</td>
<td>Law has sought to encourage involvement of private sector and international capital markets. The top 5 Spanish contractors are within the top 10 players in Europe, and they, with M&amp;A activity are focusing on Internationalisation. Construction Industry is 14% of GDP. (under 7% in UK)</td>
</tr>
</tbody>
</table>
Italy

A significant need for investment, and an emerging PPP market for regeneration. However, capacity and planning needs to be enhanced especially in peripheral areas.

Current Programmes for Urban Investment

A number of previous schemes in Italy show alignment to JESSICA objectives: STU - Società di "STU - Società di Trasformazione Urbana" focusing on commercial/industrial; Programmi di Recupero Urbano focusing on housing and Contratti di Quartieri focusing on renewal.

PPP Market

Identified as having moderately developed PPP market, which began significantly in 2000, and over 20 PPP projects had been completed particularly in the transport, health, accommodation and water sectors. Emerging track record of use in housing sector.

Focus of NSRF

3 of the 13 identified priorities are applicable to urban investment, but significant focus on wider competitiveness issues.

Future developments

Continued infrastructure gap and constrained public sector finances will see continued demand for PPP, and its expansion beyond current areas of focus.

Need for Urban Investment

There continues to be a major demand for urban investment in Italy and there is a historical focus of urban regeneration on 'bricks and mortar' solutions.

Capacity of Public Sector

Experience so far is that in southern regions it is more difficult to build wide partnerships and there is an higher dependence on public (state or EU) expenditure. There are weaknesses in regional planning, but growing recognition of the need for capacity building and stronger governance.

Capacity of Private Sector

Construction industry is relatively dynamic in contrast to weakening Italian economy (although just 6 in top 100 European), but is relatively insular (closed to outsiders). However, the weakness in southern urban areas is a major factor of influence for the quality of projects.
Germany

Reunification means major urban investment is one of a number of high priorities. A track record of regeneration and PPP means demand for JESSICA will be strong.

<table>
<thead>
<tr>
<th>Current Programmes for Urban Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany has been practising integrated urban regeneration for 25 years. Major schemes in post-reunification Berlin, and in the former East Germany have shown the scale and types of project achievable.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PPP Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>PPP has an intermediate market but with relatively high levels of activity, particularly in defence, schools, roads, waste, prisons, and central accommodation.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Focus of NSRF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broad range of actions (reflecting Lander focus for strategy development), but with urban and regional development (e.g. territorial attractiveness) being just one of a number of other priorities (e.g. comprising circa 30% in Rhine Westphalia). Likely to be higher in East.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Future developments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ongoing budget constraints, the major infrastructure gap (particularly in the former East) mean a continued need (and acceptance) of PPP models.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Need for Urban Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank has estimated Germany's projected investment needs as being circa €690bn Euro 2005-2010. There is a significant backlog of investment needed in housing and land, particularly in the East, and a problem of depopulation and 'shrinking cities' needs resolving.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capacity of Public Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Because of Germany's government structure, PPP has operated at a wide variety of governmental levels, giving capacity for utilising more innovative mechanisms.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capacity of Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Despite the potential scale of PPP, private sector finance interests in PPP have been lower than expected – partly due to lack of track record. Small players in the market focused on niche areas, and it is dominated by public sector (54%). Just 5 companies in Euro top 100.</td>
</tr>
</tbody>
</table>
Portugal

Significant EU funding and regeneration of its historic urban cores, coupled with its emerging PPP credentials present strong potential for JESSICA

<table>
<thead>
<tr>
<th>Current Programme for Urban Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant investment since 1985, particularly in Lisbon and Oporto. Programmes such as RECR/A focused on financial support for conservation as part of programme to revitalise historic cores.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Focus of NSRF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early draft focused on sustained growth, social and territorial cohesion, territorial and urban development, and human resource development. Further regionalisation of allocations, giving more flexibility/local autonomy.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Need for Urban Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant need for further investment, broadening the urban regeneration programmes from that so far achieved.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capacity of Public Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant well structured and clear structure for PPP. Recent legal changes have further developed the potential for PPP, although are regarded as being too bureaucratic and the role of the State-holding company was not regarded as helpful. May depend on regional and local govt.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capacity of Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Although initial focus of funding for major infrastructure was EU/EIB, there has been a significant role for private sector, and this is considered likely to continue. Relatively small players and high competition for PPP contracts. 3 construction players in Euro top 100.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PPP Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portugal is defined as an intermediate PPP market. Significant use of PPP, particularly within roads, waste/water, sports/leisure and transport sector, coupled with some health and IT projects. Total value very high relative to GDP, but legal blockages have hampered progress.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Future developments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recent major upsurge in the value of PPP within Portugal (335% increased from 2004/5). Current housing projects are under consideration for PPP, alongside further planned investment. Major investment in priority infrastructure, including rail and airport infrastructure.</td>
</tr>
</tbody>
</table>
Limited number of PPP projects, and NSRF does not have an urban investment focus in its largest City-Region, but infrastructure is still a key requirement.

<table>
<thead>
<tr>
<th>Greece</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recent Programmes for Urban Investment</strong></td>
<td><strong>PPP Market</strong></td>
</tr>
<tr>
<td>Major urban investment has occurred, particularly in the run-up to the 2004 Olympics. Major investment in infrastructure.</td>
<td>Intermediate market with a relatively low number of projects (when compared to other EU States). PPP activity focused on transportation, sports and leisure, with emerging proposals for schools and hospitals. No housing or significant regeneration PPPs other than Olympic redevelopment.</td>
</tr>
</tbody>
</table>

**Focus of NSRF**
Emerging NSRF has focus on reduction of regional disparities; HC and knowledge society; competitiveness and innovation; Reinforcement of accessibility; Strengthening administrative & institutional capacity. ESF likely to be 30%. Key role for infrastructure.

**Future Developments**
Future scale of PPP anticipated to be increasing, and there is a political and legal framework in place to increase its use across a wider sphere of infrastructure than has so far occurred.

**Need for Urban Investment**
Significant regional disparities focused on urban-rural balance and a focus on existing economic activity within Athens City-Region, means that a significant balance of focus will be on more remote rural locations (80% outside Attica).

**Capacity of Public Sector**
NSRF identifies a key role for modernising the public and service sector.

**Capacity of Private Sector**
Legal framework now established gives greater confidence in scope for attracting finance to PPPs.
### France

**A maturing market for PPP, and recent urban unrest has highlighted significant need for urban investment and sustainable communities that will likely drive priorities**

<table>
<thead>
<tr>
<th>Current Programmes for Urban Investment</th>
<th>PPP Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cities have seen major investment, although key priorities have been focused on Paris (as a national department) and Lyon. The emphasis on 'national projects' and infrastructure has meant less focus on national programmes on some 'softer'/local regeneration priorities.</td>
<td>An Intermediate (almost mature) PPP market across a wide spectrum of fields but with lower levels of activity, including transportation, utilities, prisons, health, accommodation, and emerging proposals for defence. Little evidence of current regeneration or housing PPPs.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Focus of NSRF</th>
<th>Future developments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emerging NSRF gives flexibility to municipal areas to set their own priorities, but also has a strong emphasis on urban areas.</td>
<td>Policy and financial drivers suggest that uptake of PPP will increase, with decentralisation. PPP is an economic incentive. Govt has recently announced a €19bn PPP programme.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Need for Urban Investment</th>
<th>Capacity of Public Sector</th>
<th>Capacity of Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>NRSF is emphasising potential role of 'growth poles' which will likely have an urban focus – the recent urban unrest also stimulates a need for major investment to tackle deep-seated social and economic problems, particularly in peripheral suburbs.</td>
<td>Key challenge around managing public finances means an increased public sector reliance on maximising private sector investment. Decentralisation means take-up will inevitably rely on capacity of local areas.</td>
<td>Research suggests only a small proportion of project financing for PPP has operated at standard PPP-margins, external debt is lent at public sector risk margins. Public sector continues to dominate (54%) industry. 9 of top 100 Europe players, but there are many local players.</td>
</tr>
</tbody>
</table>
### United Kingdom

The most advanced in terms of PPP and with significant regeneration programmes, but NSRF has a focus around economic, employment and skills areas.

#### Need for Urban Investment

Despite investment over the past three decades – there are major concentrations of deprivation in UK urban areas, and a growing recognition that cities are key economic drivers. Focus on growth areas and cities through the Northern Wy means this will continue to be a major priority.

#### Current Programmes for Urban Investment

- Large number of existing programmes including URCs, HiMR Pathfinders, Growth Areas, RDAs, NFR etc mean a patchwork of Investment and policy priorities for urban Investment, particularly focused on city centres and inner city neighbourhoods. Stock transfer of housing stock.

#### Focus of NSRF

Significant focus in NSRF on Lisbon agenda and economic and employment initiatives. NSRF refers to potential for JESSICA but highlights that it should not duplicate other urban funding/sustainable communities initiatives.

#### PPP Market

Most mature PPP market in Europe across virtually all sectors, including sustainable communities/housing and other major infrastructure.

#### Future developments

Despite some political criticism over PFI efficacy, there is no real move against PPP, and new mechanisms/forms of PPP for where there is less certainty on project specification are being developed.

#### Capacity of Public Sector

Significant and growing experience of using PPP mechanisms for urban investment/regeneration, but success is still patchy and many local authorities remain lacking in capacity.

#### Capacity of Private Sector

Significant capacity in the private sector to deliver PPP and urban investment incl. International Investors (e.g., Australia), and the private sector institutions in the UK who have a growing track record of urban investment projects with the public sector. 36 of top 100 European players.
Poland

The largest receiver of Structural Funds, has major investment in infrastructure and significant need for urban investment.

Current Programmes for Urban Investment


Focus of NSRF

NSRF identifies €2.347m for infrastructure and environment under ERDF, and an overall €28bn on roads and motorways. Significant focus on revitalisation of cities, including reclamation/remediation of land and buildings.

Future developments

There is a huge theoretical demand for projects supported by PPP, and legislation now allows a greater range of PPP activity. The scale of need, EU resources, and the potential opportunity could mean an uplift in activity. However, EU funding may actually have the opposite effect.

Need for Urban Investment

The scale of investment needed is significant, particularly focused around transportation and tackling industrial and military dereliction within the major metropolitan areas. There is a deficit of 1.6m homes, and 30% of stock requires investment. Major growth expected in cities.

Capacity of Public Sector

Capacity to develop more innovative approaches to delivering urban investment is variable. Different parts of government have different levels of appetite. Emerging interest at city-level in PPP for urban regeneration.

Capacity of Private Sector

Limited experience of PPP and historical legacy means that private sector within Poland has been less willing to ‘do business’ with the public sector. The presence of external (international) investors, and some more successful examples may change this. Lack of skilled staff is a problem for delivery.
Czech Republic

Limited PPP so far, but emerging projects across a range of areas, and significant infrastructure/urban investment requirements.

Current Programmes for Urban Investment

PPP has already been seen in the property/housing sector (ten apartment blocks in Prague-Bechovice), and some municipalities are understood to be interested in land development/regeneration programmes.

Focus of NSRF

NSRF has focus on urban investment, and alongside infrastructure and economic restructuring activity.

Need for Urban Investment

Similar problems of urban environment and infrastructure gap as in other accession states. Undersupply of new housing, despite increase in build rates.

Capacity of Public Sector

Capacity of municipalities is variable in terms of applying more innovative financial approaches to delivering urban investment, although there is understood to be growing potential interest.

Capacity of Private Sector

There is significant interest from construction companies (e.g. Skanska, Mestroav etc) in PPP, although it is only a small number of years ago that there was significant scepticism. German and Austrian firms, being closer to local knowledge and market may lead international interest.

PPP Market

Limited PPP so far, particularly after cancellation of D47 Motorway Project. However, emerging projects across a wide range of sectors, including housing, transportation, schools, leisure and utilities.

Future developments

There is an emerging pipeline of projects, particularly fuelled by EU accession, focused on transportation. Now arguably the most advanced of accession states. Resolution of legal barriers to PPP resolved during 2006.
At the forefront of PPP among the accession states, and with an established housing renewal programme tackling major renewal challenges.

**Need for Urban Investment**

The cities of Hungary, and especially Budapest, suffer urban decline, deprivation and social exclusion and long-lasting neglect of the building stock. 25% of housing stock estimated to be obsolete -- (either dilapidated or abandoned) -- and this is indicative of general need for renewal.

**Capacity of Public Sector**

Mixed capacity, although general capability around structuring PPP for off-balance sheet purposes, less experience of PPP as mechanisms for improving delivery/risk transfer. In housing sector, there has been significant effort on securing investment/improvement since 2000.

**Capacity of Private Sector**

Significant range of domestic (e.g. Wallis Real Estate, OTP Real Estate, etc.) and International players (primarily German and Austrian) operating in PPP market, alongside financiers.

**Current Programmes for Urban Investment**

Regeneration and land has formed significant part of overall strategy, with projects such as Corvin Passage, being PPP-related urban investments. Major privatisation of housing stock (from 22% to 5% by 2000), followed by emerging renewal/regeneration programmes.

**Focus of NSRF**

Identified as a Needs-driven strategy, focused on growth poles, with quality of life/territorial attractiveness as a key objective. Regionalisation to some extent of the approach.

**PPP Market**

Has one of the more advanced PPP markets of the recent accession states, particularly for road infrastructure, and has had projects come through across a number of areas, including schools, sports/leisure, rail, housing, and health.

**Future developments**

Primary driver for PPP hitherto was to keep off the balance sheet. However, budget deficit and infrastructure gap means continued demand for PPP, albeit linked to political situation.
### Romania

**Significant need for urban regeneration and land development, but a weak market and unclear policy focus**

<table>
<thead>
<tr>
<th>Need for Urban Investment</th>
<th>Capacity of Public Sector</th>
<th>Capacity of Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 900,000 ha of contaminated land, often in the heart of major cities. Peripheral housing estates, often dilapidated and in poor condition.</td>
<td>Limited experience of municipalities in delivering housing renewal, and many development projects remain small scale. However, emerging focus on major real estate projects.</td>
<td>Low land values on brownfield land and the spatial configuration of land and property within major urban areas means there is limited appetite for private sector engagement on many of the most difficult opportunities, although commercial and retail sectors have potential.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current Programmes for Urban Investment</th>
<th>PPP Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large-scale privatisation of social housing has left majority of problem in the private sector. Government focus on large scale infrastructure projects and tourism. Redevelopment of brownfield land understood to have low priority.</td>
<td>PPP market (often concession schemes) focused in a number of sectors, often driven by local municipalities rather than central government, particularly in housing, health, roads, leisure and utilities. Government cancelled three major deals in 2005 on highway schemes.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Focus of NSRF</th>
<th>Future developments</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSRF focused on infrastructure requirements and other economic measures rather than on territorial development/quality of life. Leads to suggest less focus on JESSICA aligned projects than in some other accession states.</td>
<td>New legislative framework in place, and outlook is regarded positively, particularly for highways, energy, water and waste. Emerging projects including tourism schemes.</td>
</tr>
</tbody>
</table>
**Slovakia**

Emerging proposals for housing and urban renewal, but limited exposure to PPP

<table>
<thead>
<tr>
<th>Current Programmes for Urban Investment</th>
<th>PPP Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban renewal policy in place for targeted regeneration of urban structures. Dutch minister of housing promoted PPP for residential regeneration.</td>
<td>Very limited market so far for PPP, although an emerging highways project may change this, driven by budget gap. New PPP unit, although this is modest in size.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Focus of NSRF</th>
<th>Future developments</th>
</tr>
</thead>
<tbody>
<tr>
<td>The emerging NSRF does not have quality of life/territorial attractiveness as key driver, and the priorities are understood to be focused on the infrastructure gap and bridging the economic gap, in terms of competitiveness etc.</td>
<td>Govt advised municipalities not to progress with PPPs until legislation is in place. Emerging highways schemes may pave way for further schemes, although this is understood to be limited to utilities and transportation infrastructure. Potential emerging link with Dutch re: housing.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Need for Urban Investment</th>
<th>Capacity of Public Sector</th>
<th>Capacity of Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major requirements for infrastructure, greenfield FDI and additional housing. Rising aspirations for higher quality residential, and economic growth, may well contribute to declining demand and abandonment of redundant failed housing.</td>
<td>Significant volume of public works have been undertaken, focused, inter alia, on infrastructure and environmental improvements.</td>
<td>Small players in terms of the construction industry, although the volume of activity has increased markedly.</td>
</tr>
</tbody>
</table>