# JESSICA

*JOINT EUROPEAN SUPPORT FOR*
*SUSTAINABLE INVESTMENT IN CITY AREAS*

# *Implementing JESSICA Instruments in Hungary*

# EVALUATION STUDY

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# Abbreviations

| | |
|---|---|
| AP | Action Plan |
| CEB | Council of Europe Development Bank |
| EC | European Commission |
| EIB | European Investment Bank |
| ERDF | European Regional Development Fund |
| HF | Holding Fund |
| HUF | Hungarian Forint |
| IUDS | Integrated Urban Development Strategy |
| JEREMIE | Joint European Resources for Micro to Medium Enterprises |
| JESSICA | Joint European Support for Sustainable Investment in City Areas |
| MA | Managing Authority |
| MÁV | Hungarian State Railway Company |
| ROP | Regional Operational Programme |
| OP | Operational Programme |
| SME | Small and medium sized enterprises |
| TOP | Transport Operational Programme |
| UDF | Urban Development Fund |

# Executive summary

The JESSICA (Joint European Support for Sustainable Investment in City Areas) initiative has been developed to address the perceived market failure in the urban sector or, more specifically, the lack of investment funds to finance integrated urban renewal and regeneration projects in pursuit of more sustainable urban development in European Member States. JESSICA is a financial engineering instrument which allows for the provision of investments using European Structural Funds and other funding sources into sustainable urban development projects or Public Private Partnership (PPP) projects, through the provision of loans, equity investments, and/or financial guarantees via Urban Development Funds (UDFs). The JESSICA initiative has been developed by the European Commission (EC) in cooperation with the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB). In June 2011, the Hungarian National Development Agency and the European Investment Bank commissioned an Evaluation Study into the feasibility of introducing JESSICA in Hungary within the current programming period (2007-2013).

Hungary's GDP per capita is below the European average and within the country there are significant regional variations in income levels. Whilst the Central Hungary region and the North-West of Hungary are the most developed parts of the country, North-Eastern areas are less prosperous.

Hungary joined the European Union in 2004 and has two decades experience with the use of EU grant programmes (both pre-accession programmes, and Structural Funds) to help stimulate economic development and reduce regional disparities within Hungary, and between Hungary and other European Member States.

The political changes in 1989 led to substantial changes in Hungary's industry and economy, and resulted in brownfield areas, industrial and military sites falling into disuse, and city centres losing their attractiveness, creating a need for urban regeneration programmes. These programmes were required to improve quality of life, improve land use distribution, increase the attractiveness of Hungarian cities to private investors, local businesses and residents and to attract tourists into Hungary. The regeneration of existing urban areas started in 2003 with the regional development pre-accession (Phare) programme. After EU-accession Hungary introduced further urban regeneration programmes financed by European Structural Funds. As a result, in the last few years, quite a large number of Hungarian towns have been involved in urban regeneration initiatives and have received funds from the European Union for urban development projects.

In order to receive European Structural Funds in the 2007 – 2013 programming period for urban regeneration projects, local authorities have been required to prepare an Integrated Urban Development Strategy (IUDS). The IUDS defines the main strategic direction of a city over the medium term (7-10 years) and in line with predicted demand set forth areas for development in line with the outlined objectives. The IUDS is based on a spatial planning approach which integrates different themes.

Since the IUDS urban planning tool was introduced in 2007, cities are able to have a strategic overview of the urban and socio-economic issues in their area. Based on this analysis, this allowed them to identify areas in need of development. Typical areas for development and/or regeneration which are highlighted in IUDs include:

- Brownfield sites
- Housing estates
- Urban transport
- Greenfield sites

Whilst there is an active real estate private sector market in Hungary in the more prosperous areas such as Budapest and the larger cities, which tend to develop and fund new urban development projects, most regeneration projects find it difficult to attract private investment and commercial loans, a situation exacerbated by the worldwide financial crisis. Such projects are generally funded by the public sector and are frequently supported through grants from European funding programmes.

Where the private and public sector collaborate on projects, there is a cooperation agreement between the them, but the public sector retains full control over the development. Private involvement models which involve risk sharing are very limited in Hungary.

Urban regeneration project financing for public sector projects is mainly through the provision of grants, with municipalities receiving up to 85% of the project value from central government and/or European funding. In addition municipalities access additional funding for projects in their areas through specific loans designed for municipalities. Fully owned and operated private sector development projects are financed through construction and project financing loans. The availability of bank loans and the provision of guarantees forms an essential element of whether urban development projects proceed.

Since the financial crisis it has become more difficult to obtain the necessary loans to finance urban projects. Banks demand high risk premiums resulting in high interest rates and have increased the required share of the project sponsors own capital investment. Both municipalities and private developers suffer from these restraints as they need these loans to realise developments.

The reduction in availability of financing for urban development projects suggests that the introduction of new financing instruments such as JESSICA might be able to increase the supply of funds to enable more urban development projects to take place, especially for private sector led developments which are unable to access financing in the current market. From a public sector perspective new financing instruments such as JESSICA may also be attractive as they present an opportunity to allow their allocated European Structural Funds to 'go further' through attracting private sector or other investments into projects, and through the potential for funds to be replenished over time as JESSICA investments are repayable, and can therefore be reinvested at a later date. Projects which are identified through the IUDS' would constitute part of an Integrated Plan for Sustainable Urban Development (IPSUD) which forms one of the criteria for financing from JESSICA UDFs.

For JESSICA to be introduced in Hungary in this programming period, there need to be funds available within existing Operational Programmes (OPs) to allocate to JESSICA UDFs. Three OPs have available funds which could be allocated to JESSICA UDFs for the current programming period, which are the Transport OP, the North Great Plain and the North Hungary Regional OPs. In the current budget of the Regional OPs the following amounts are allocated to JESSICA: 2 billion HUF for North Great Plain, 1 billion HUF for North Hungary, whilst the amount to be allocated to JESSICA from the Transport OP is yet to be defined.

Within the North Great Plain and North Hungary regions, the IUDS' identify inner-city rehabilitation, brownfield revitalisation, development of public infrastructure (utilities, traffic, transport, institutions) and some greenfield projects (industrial, commercial or residential) as the priorities for urban development. The projects identified in the IUDS mainly fall within the current programming period (2007-2013). Whilst some planned projects have already received funds, others involving private partners have been delayed or cancelled due to financial difficulties experienced by the private partner. Analysis of the IUDS' for cities over 25,000 inhabitants identified a number of projects which might be suited for JESSICA financing, which are included in Appendix 9. Appendix 9 also includes possible projects identified from within the Transport OP which would form part of an IPSUD. Of these projects, five were considered to present particular opportunities for revenue generation and financing in this programming period from JESSICA UDFs and were analysed in more detail to help to identify the possible size of any UDF(s) which may be established. This analysis determined that with the exception of one project, most projects are not yet at the level of maturity to receive investment, and would require further project development to receive JESSICA investments. However, if one assumes that the projects could reach maturity in time, along with a number of other key assumptions stated in this paper, then there could be potential demand for JESSICA funds.

The analysis of the demand for sustainable urban development projects in Hungary and the supply of financing for such projects implies that introducing JESSICA UDFs in Hungary could assist in bringing forward projects which may not otherwise happen, by providing access to private financing for projects to municipalities, and access to European Structural Fund support to private developers, whilst simultaneously creating a revolving fund(s) which could invest in additional projects in the future.

However, there are a number of issues that need to be considered and addressed for UDFs to be able to realise investments within this programming period as follows:

- Most of the projects can be considered as not yet mature, in most of the cases feasibility studies, financial plans are under preparation or not started yet. In many instances technical assistance may be required to bring projects to the required level of maturity to receive investment funds.

- Several projects in the North Great Plain and North Hungary regions which have yet to receive financing, and could be suitable for JESSICA investments if they were restructured to allow for revenue generating opportunities within the project are current structured to be eligible for grant funding, and are being prepared for the next "Urban rehabilitation" ROP tender.

- Experience with such financial engineering instruments within Hungary is limited, and municipalities in particular are experienced and familiar with the grant funding requirements. This has the potential to limit both ideas for potential urban revenue generating projects, and capacity for their development, particularly in smaller cities.

- Similarly the often low requirement for match funding of European grant funds could lead to a disincentive effect for project sponsors to use other financing mechanisms which require a higher proportion of funding from other sources. This implies that JESSICA would be more attractive to those projects which are ineligible for grant funding, and are therefore likely to generate higher levels of revenue. Such projects are likely to be in the more prosperous areas of Hungary which don't have funding available to allocate to JESSICA in this programming period and/or exceed the EUR50million large project threshold requiring special approval from the EC, which may be unlikely to be achieved within the required timeframes.

- The motivations and expectations of public and private actors can differ. For example private investors usually work on the basis of a limited length of 3-4 month for a decision which may not match public sector decision making timeframes. In addition transparency is a major JESSICA requirement during a project development period, but private developers or investors are sometimes not prepared to disclose the necessary information.

- Regulations in respect of municipality financing and public private partnerships are changing in Hungary, which may impact on what projects might be able to be funded through the JESSICA mechanism.

In terms of possible structures for the introduction of JESSICA in Hungary, there are a range of options including Holding Fund (HF) or no HF, one or more UDFs, and whether UDFs should be regional or sector specific. These decisions are for the Managing Authority (MA) to determine.

Introducing JESSICA financial engineering instruments in Hungary presents an opportunity to add to the range of funds available for sustainable urban development. Preconditions for success involve the speedy establishment of the UDFs and support to be made available for project sponsors to further develop projects to allow them to be financed in this programming period.

For future programming periods, consideration could be given to extending the geographical coverage of JESSICA to include other urban areas in addition to the North Great Plain and North Hungary regions. Similarly increasing the scope of sector coverage to include other potential eligible areas of JESSICA financing such as energy efficiency and renewable energy could be another consideration. In addition, extending the range of possible development typologies which are eligible to receive funding from the OPs may assist in meeting the economic and sustainable development requirements of Hungarian cities, for example to include a higher priority for brownfield developments, and infrastructure which often suffer from market failure and are ideally placed for financing mechanisms such as JESSICA.

Steps and indicative timetable for the implementation of JESSICA in Hungary with EIB as the HF manager could be the following:

| **Structure with HF** | |
|---|---|
| 2 months | Negotiations and signing of FA between EIB and MA |
| 3 months* | Preparations for launching of Call for Expression of Interest (market analysis, promotion activities etc) |
| 3 months | Call for Expression of Interest for the selection of UDF manager(s) |
| 2-3 months | Operational Agreement negotiations with selected potential UDF managers |
| | *Signing Operational Agreement* |
| 1 month | Announcement of the call for project applications |
| | Investments in projects by UDFs |

* this can be shortened if work consists of only tailoring EIB's Call for EoI template, in case the NDA would already know (also on the basis of the Study) which UDF business model they would implement (geographical/sector split; 1 or more UDFs).

In case the NDA decides not to establish a HF structure, but selects a UDF directly, the NDA will be required to go through the whole process of preparing and concluding the respective documentation (selection process, contract with UDF etc.). EIB can however assist NDA through the provision of Technical Assistance.

## 1.1. Introduction

Mazars/Ecorys were appointed on the 14th June 2011 to carry out an Evaluation Study on behalf of the European Investment Bank (EIB) and the Hungarian Managing Authorities (MA) regarding the implementation of JESSICA in Hungary.

The overall purpose of the Hungarian Evaluation Study is to assess the potential project opportunities presented by JESSICA in Hungary specifically in relation to the following OPs, in the current programming period (2007-2013):

- North Great Plain OP
- North Hungary OP
- Transport OP

The objectives of the Study are to:

- briefly outline the context of sustainable urban development and transport in Hungary as a whole, and for the specific regions selected, namely North Hungary and the North Great Plain.
- examine the market for urban revitalisation projects and transport projects in the relevant regions, and analyse the eligibility for JESSICA financing as well as the risks and opportunities for promoters and beneficiaries
- identify mature projects which, under the relevant OPs, could be invested in by a UDF during this programming period
- calculate, following the identification of mature projects, what amount of the available European Regional Development Fund (ERDF) sources still available could potentially be disbursed by a UDF to projects by the end of 2015
- assess what modifications, if any, need to take place in order for these projects to be eligible under the relevant OPs (e.g. steps to be implemented for these projects to become part of an Integrated Plan for Sustainable Urban Development etc.)
- produce a time-line and Action Plan (AP), which shows that these projects can be implemented during this programming period.

The Study briefly describes the urban development issues and developments in transport in Hungary, and how employing ERDF funds through JESSICA may be relevant to address these issues and, for the Regional OPs, concentrate primarily on challenges and opportunities for JESSICA in the North Hungary and North Great Plain regions. The Study will analyse the demand and supply sides of the markets for the different sectors of relevance to JESSICA described in the specific OPs in the specific regions.

The Study will identify eligible and viable projects for JESSICA financing. Both public and private bodies were consulted to identify projects.

## 1.2. Methodology

In order to analyse the supply and demand side of the urban rehabilitation market and the potential for using JESSICA instruments in the two identified regions and by the Transport OP, desk research and interviews were undertaken.

Desk research focused on identifying:

- The market environment for urban development
- Market failures in urban development
- Prevailing urban development project typologies
- Thematic or geographical areas where more or different kinds of investment are needed
- Related financing requirements
- Key market participants
- Existing public programmes in relation to urban development and regeneration
- Possible projects that could be eligible for JESSICA financing.

Documents reviewed were as follows:

- New Széchenyi Plan, to provide an overview of the Hungarian grant schemes, supported actions and areas, available sources of finance, and preferred financial models.
- OP documentation of the Transport and Regional OPs with a focus on identifying available sources of funding, funding criteria and methodology, financial schemes, supported actions and analysing the possible types of development and financial areas where JESSICA operations could be introduced. In addition, the calls for proposals of the selected OPs give the necessary detailed information about the supporting schemes.
- IUDS / APs of the relevant cities identifying urban renewal schemes, project types, and possible projects and to analyse the demand for JESSICA scheme and provide a list of possible projects. The project information presented in the report was collated from the analysis and research of the IUDSs of selected cities, and further discussion with the local representatives of the local municipalities. The IUDSs of the six cities (in alphabetical order: Debrecen, Eger, Miskolc, Nyíregyháza, Salgótarján, Szolnok) with county right in the North Hungary and North Great Plain regions were analysed. A review of the IUDSs of the cities with the number of residents over 25.000 (Jászberény, Hajdúböszörmény, Gyöngyös, Kazincbarcika, Ózd) was also undertaken
- Documents provided by the potential project owners about the technical and financial details of their project ideas (to the extent it is available at the time of the report writing)[1].

[1] The detailed methodology for the financial snalysis of the selected projects can be read in sub-chapter 7.2.

A range of stakeholders which were interviewed are the following:

- Representative of the Ministry for National Development
- Representatives of the Managing Authorities: ROP, Transport OP, Economic Development OP
- Representative of the North Hungary Regional Development Agency
- Representatives of the local municipalities of Eger, Debrecen, Nyíregyháza, Miskolc, Salgótarján, Szolnok
- Representatives of the MFB Hungarian Development Bank, Garantiqua, MFB Invest, Venture Finance Company
- Representatives of the private investors Talentis and CBS Property
- Representative of the MÁV Hungarian State Railway Company.

## 1.3. Structure of the Report

The final report covers the following:

- After the present introduction and approach chapter a brief description is given about **the key characteristics of the JESSICA Initiative** (Chapter No 2.)
- Chapter No 3 provides a brief overview about the **general background of Hungary** from geographical, economic point of view, and it also summarises the experience of the country with EU grant programmes before and after the EU accession in 2004. This helps to understand the environment of the planned introduction of the JESSICA Initiative.
- Chapter No 4 provides an overview of **urban regeneration in Hungary**. It covers subtopics like the history of urban regeneration in Hungary, the urban planning in Hungary, the urban regeneration investments needs, and also the involvement and cooperation of the public and private side stakeholders.
- Chapter No 5 covers the **financing of urban regeneration** in Hungary.
- The next part of the report (Chapter No 6) gives a summary about **the 3 relevant OPs** of Hungary and the potential of them from the point of view of JESSICA Initiative.
- Chapter No 7 provides all the financial details of the selected project ideas, and **the results of the financial assessments.**
- **Options for JESSICA structures are provided in chapter 8.**
- At the end of the report a **conclusion** is provided**.**
- In the annexes of the report the **detailed project sheets** are attached.

# 2. Key characteristics of JESSICA

## 2.1. Introduction to JESSICA

JESSICA was a response to requests from several Member States and the European Parliament to give special attention to the need for renewal and/or regeneration of certain urban areas. It is based on a perceived market failure in the urban sector or, more specifically, on the lack of investment funds to finance integrated urban renewal and regeneration projects in pursuit of more sustainable urban communities. Thus Joint European Support for Sustainable Investment in City Areas (JESSICA) is a new policy initiative, creating a framework for enhanced cooperation in financial engineering for sustainable urban development policy between, on the one hand, the authorities in the Member States, and on the other hand, the Commission in cooperation with the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB). Other International Financial Institutions (IFIs), as well the European banking and private sector can potentially participate and contribute.

Its objective is to provide Member States and MAs with a tailored solution to financing projects for urban renewal and development, using an appropriate combination of grants and loans, or other financial products as appropriate. JESSICA was therefore launched with a view to providing new opportunities to MAs responsible for the cohesion policy programmes in the current programming period 2007-2013.

Under the JESSICA initiative, OPs and the MAs will be able to:

- provide funding for a wide variety of public-private partnerships, or other urban development projects that are capable of repaying in the long-term the resources invested in it, in total or in part
- avail themselves of a more simple and more flexible management of funds for urban development
- achieve greater leverage from scarce grant resources for urban development by attracting contributions from international financial institutions, banks, the private sector, etc.

A project is considered eligible for JESSICA investment only if it is included in an integrated plan for sustainable urban development (IPSUD), it contributes to raising the competitiveness and attractiveness of the urban area over the long term, it can achieve a certain level of self-sufficiency ensuring the revolving nature of the invested capital, and it meets the criteria for the specific OPs financed from the European Regional Development Funding (ERDF).

## 2.2. The JESSICA investment model

The JESSICA investment model was developed out of existing experience of urban investment funds particularly in the UK and France, such as the English Cities Fund in the UK and CDC in France where entities receive equity from investors and aim to provide an equity-type return, although their return is also determined by their urban development objectives, rather than being exclusively driven by the need to maximise profits. Such funds seek to provide attractive equity returns commensurate with their commitment to urban areas in need of redevelopment. Increasingly referred to as 'impact funds', the EC and EIB (in cooperation with CEB) have sought to create similar structures for JESSICA.

The graphic below depicts how JESSICA investments may take place.

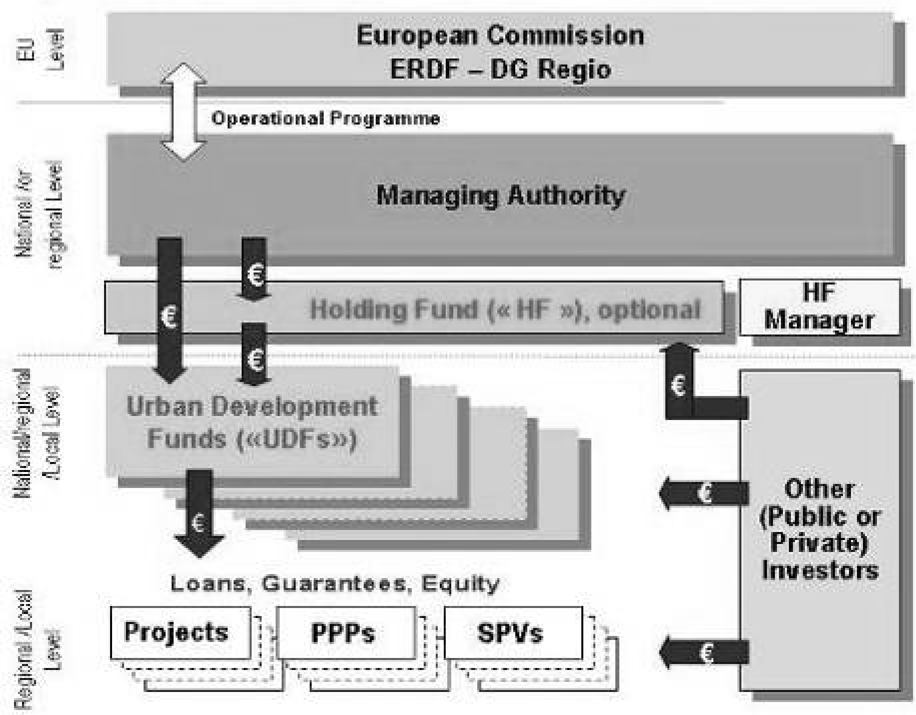



Figure 1: JESSICA in theory

Managing Authorities (MAs) are able to allocate part of their Structural Fund allocations from relevant OPs in any one programming period to invest in UDFs, which in turn invest in urban renewal and regeneration projects by means of loan, equity, or guarantee. MAs also have the option of using a HF which can be a separately identifiable account or area within an existing entity or an entirely separate legal entity, which can then invest in UDFs.

JESSICA allows the ability to 'recycle' European funds, through investing in revenue generating projects which in turn repay the investment into the fund, allowing it to be reinvested at a later date in other projects. This revolving use of funding is a key concept in JESSICA. Money can be spent multiple times and therefore provides an efficient use of funds. It permits cities to have a clear and demarcated long-lasting investment channel with regional and EU investment resources. The EC regulations relevant to JESSICA are included in an Annex to this report.

## 2.3. Holding Funds and Urban Development Funds

HFs

A HF is a fund set up to invest in one or more UDFs. Whilst a HF is not a requirement for JESSICA implementation, there are several benefits for Member States in having one:

– It allows Managing Authorities to delegate some of the tasks required in implementing JESSICA to appropriate professionals. These tasks include establishing specific criteria for making investments in UDFs, procuring, appraising and recommending appropriate UDFs to invest in, negotiating contractual arrangements with, as well as monitoring and reporting on the performance of UDFs
– It 'holds' the funds whilst one or more UDFs are being established, separating the management of JESSICA funds from MA OP resources.

UDFs

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

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

HF Funding Agreements

The terms and conditions for contributions from OPs to HF/UDFs are set out in a Funding Agreement, concluded between the HF/UDF and the MA. The Funding Agreement covers:

– Investment policy and business plan of the HF
– Treasury management of the HF
– Marketing of the JESSICA initiative among financial investors and sponsors of potential projects, in collaboration with the MA
– Marketing of the JESSICA initiative among potential UDF candidates
– Preparing and managing the Call 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 on all activities, particularly UDFs' performance and resultant performance of the HF
– Assistance to UDFs on issues of eligibility, state aid, and identification of leverage opportunities.

Where HFs are not used, the relevant responsibilities of the HF will need to be undertaken by the MA itself.

UDF responsibilities

Whilst not specific on legal form, a UDF can be a separate legal entity, or be established as a "separate block of finance" within an existing financial institution. In such cases, JESSICA funds need to be separately accounted for and clearly segregated from the other assets of that financial institution. UDFs can be established at either a national, regional or local/city level in response to IUDS, project pipelines and investor interests. UDFs will themselves be managed by fund managers. The responsibility of the UDF fund manager(s), within the contractual agreement with the HF (or MA where there is no HF), will be to:

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

## 2.4. Nature of JESSICA investments

JESSICA can be used in four different principal ways

| **Principle ways** | |
|---|---|
| Loan | Loan to public or private sector. To be paid back over time at an agreed rate. |
| Subordinated loan | Loan to public or private sector to attract other investors by reducing the risk of investment. Loan to be paid back over time at an agreed rate. |
| Equity | To supply direct investment or to improve leverage to be able obtain further loans from banks or private sector investors or other financial institutions |
| Guarantee | For loans to public or private sector. Reduces risks and creates leverage. |

At the moment loans and equity are the most commonly used.

# 3. Introduction to Hungary

This chapter aims to provide a brief overview of Hungary's geography, economy and previous involvement with EU grant programmes, before and after the EU accession in 2004, in order to provide an understanding of the background against which the planned introduction of the JESSICA Initiative will be set.

## 3.1. Geographical and economic background

### 3.1.1. Geographical overview

Hungary is a small country, of only 93,000 km$^2$, located in the heart of Europe.

The population is around 10 million people. The largest city in Hungary is the capital, Budapest (1,7 million), and there are 8 other cities in which population exceeds 100,000 inhabitants. In order of the population size, these cities are Debrecen, Szeged, Miskolc, Pécs, Győr, Nyíregyháza, Kecskemét, Székesfehérvár.

Hungary is divided into 7 statistical regions, which cover 19 counties.

Details about each region can be found in the table below. The Hungarian regions which are considered in this report are the North Great Plain region and the North Hungary region, and so county level information has also been provided for these two regions in the table.

**General Overview of the Hungarian regions, counties**

| **Regions /Counties** | **Size ($km^2$)** | **Population in 2010** | **County seat and major cities over 20k inhabitants** |
|---|---|---|---|
| Central Hungary region | 6,916 | 2,951,436 | Budapest |
| Southern Transdanubia region | 14,169 | 947,986 | Pécs |
| Western Transdanubia region | 11,328 | 996,390 | Győr |
| Central Transdanubia region | 11,116 | 1,098,654 | Székesfehérvár |
| South Great Plain region | 18,338 | 1,318,214 | Szeged |
| North Great Plain region | 17,729 | 1,492,502 | Debrecen |
| Jász-Nagykun-Szolnok | 5,582 | 390,775 | Szolnok Jászberény Törökszentmiklós Karcag |
| Hajdú-Bihar | 6,210 | 541,298 | Debrecen Hajdúszoboszló Hajdúböszörmény |
| Szabolcs-Szatmár-Bereg | 5,937 | 560,429 | Nyíregyháza |
| North Hungary region | 13,433 | 1,209,142 | Miskolc |
| Nógrád | 2,546 | 204,917 | Salgótarján |
| Heves | 3,637 | 311,454 | Eger Gyöngyös Hatvan |
| Borsod-Abaúj-Zemplén | 7,250 | 692,771 | Miskolc Kazincbarcika Ózd |

Source: Central Statistical Office (HCSO) 2010

### 3.1.2. Macro economic background

Hungary has experienced a major transformation from a centrally organised to a market economy. This transition had already started gradually years before the change of the political regime in 1989.

The 2004 EU accession officially marked the end of the 14 years of transition during which Hungary already proved to be attractive for foreign investors. Privatisation and FDI have played key roles in modernising the Hungarian economy.

Hungarian GDP growth was driven by the expansion of exports and investments. Between 2001 and 2008, export growth was exceptionally high at 11.5% per annum and the structure of exports showed an upward trend. After 1998, the share of technology-intensive and high-value-added sectors such as machinery, transportation equipment and ICT products grew significantly.

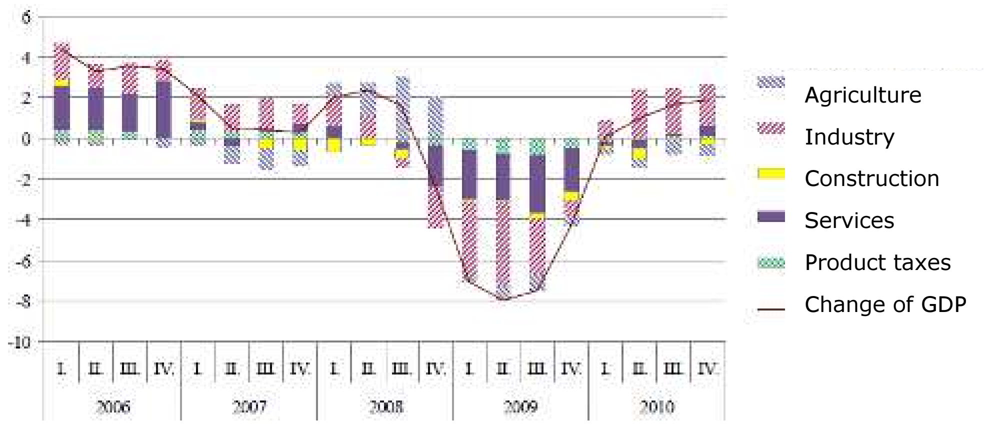
As a consequence of its export driven economy, the global slowdown and faltering demand in its main export markets has had a negative impact on Hungary's economic growth in the last few years, especially in the export-orientated automotive and consumer electronics sectors. However there are signs that economic recovery has started in Hungary with a 2.7% growth in GDP estimated for 2011.

| Figures | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011* | 2012* |
|---|---|---|---|---|---|---|---|---|
| 1. Growth rate of real GDP (%) | 3.9 | 4.0 | 1.2 | 0.6 | -6.2 | 1.2 | 1,8 | 1,5 |
| 2 Export growth rate (%) | 11.5 | 18.0 | 16.4 | 6.3 | -19.4 | 21.4 | 17.0 | 15.0 |
| 3. Import growth rate (%) | 6.1 | 14.4 | 13.4 | 6.6 | -24.8 | 19.4 | 18.0 | 14.0 |
| 4. Consumer price index (%) | 3.6 | 3.9 | 8.0 | 6.1 | 4.2 | 4.9 | 3,9 | 4,7 |

*Source: HCSO, Hungarian National Bank (HNB), ECORYS, *estimation based on September 2011 HNB forecasts*

The following graph shows the contribution of different sectors to Hungarian GDP. Industrial production is the engine of GDP growth, while agriculture and construction remain in decline. For 2011, there is significant growth potential in the service sector (including retail), and stable industrial production (based on industrial growth in Germany). Currently, it appears that the construction sector will need more time for recovery.

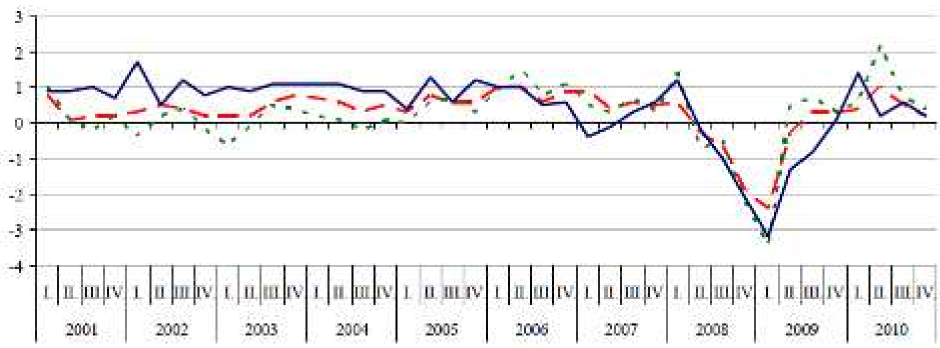
**The contribution of Hungary's major economic sectors to GDP growth**




*Source: HCSO*

The changes seen in Hungary's GDP over the past few years are, because of the export focus of its economy, closely related to the movements in the GDP of the EU27 and of Germany in particular. This is shown in the following graph.

**Changes in GDP 2001-2010**




*Source: HCSO, red= EU27, green= Germany, blue= Hungary*

The geographic distribution of GDP within Hungary shows that the Central Hungarian region and the North-West of Hungary have gained the most from the FDI inflows of the last two decades. The new, modern export-oriented industry settled in these two regions; major growth centres are Győr, Székesfehérvár, Tatabánya and Komárom. Once again, as this report explores the North Great Plain region and North Hungary region in more detail, information on counties in those regions has been italicised and coloured blue.

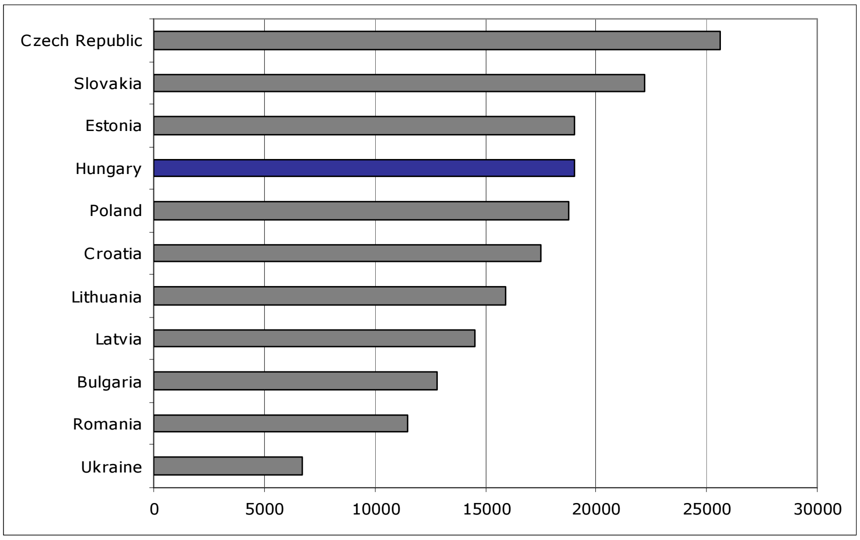
**GDP/capita in Hungary by counties in EUR**

| Counties | Regions | 2005 | 2010 | % change 2005-2010 |
|---|---|---|---|---|
| Budapest | Central Hungary | 17,030 | 22,003 | 129% |
| Győr-Moson-Sopron | Western Transdanubia | 8,776 | 11,222 | 128% |
| Komárom-Esztergom | Central Transdanubia | 9,258 | 10,564 | 114% |
| Fejér | Central Transdanubia | 7,717 | 9,353 | 121% |
| Vas | Western Transdanubia | 7,769 | 8,799 | 113% |
| Pest | Central Hungary | 6,727 | 8,518 | 127% |
| Zala | Western Transdanubia | 7,074 | 8,333 | 118% |
| Csongrád | South Great Plain | 6,197 | 7,456 | 120% |
| Veszprém | Central Transdanubia | 6,124 | 7,365 | 120% |
| Tolna | Southern Transdanubia | 5,800 | 7,285 | 126% |
| Baranya | Southern Transdanubia | 5,921 | 7,191 | 121% |
| *Hajdú-Bihar* | *North Great Plain* | *6,033* | *7,109* | *118%* |
| *Heves* | *North Hungary* | *5,792* | *7,019* | *121%* |
| Bács-Kiskun | South Great Plain | 5,496 | 6,754 | 123% |
| *Jász-Nagykun-Szolnok* | *North Great Plain* | *5,267* | *6,606* | *125%* |
| *Borsod-Abaúj-Zemplén* | *North Hungary* | *5,803* | *6,424* | *111%* |
| Somogy | Southern Transdanubia | 5,471 | 6,306 | 115% |
| Békés | South Great Plain | 5,075 | 5,948 | 117% |
| *Szabolcs-Szatmár-Bereg* | *North Great Plain* | *4,550* | *5,269* | *116%* |
| *Nógrád* | *North Hungary* | *4,281* | *4,639* | *108%* |
| Total | | 8,126 | 10,030 | 123% |

Source: HCSO, 2010-2012 ECORYS calculation

The national purchasing power parity (PPP) calculates the GDP on the basis of different currencies being equalised for a given basket of goods. The following table shows the regional position of Hungary in terms of purchase power.

**GDP/capita at PPP in Central and Eastern Europe in 2010**




Source: CIA World Factbook, 2010

The purchase power in Hungary shows regional differences. The general overview shows that the capital city (135.2%) along with the county of Pest (103.2%) and the North-West part of Hungary (Győr-Moson-Sopron 107.4%, Fejér 104.5%, and Komárom-Esztergom 102.7%) have the strongest economies and therefore the highest per capita purchase power compared to the national average.

**Purchase power in Hungary by county**

| County | Population | Purchase power per capita | | |
|---|---|---|---|---|
| | | EUR / per capita | index / per capita Hungary=100 | index / per capita Europe=100 |
| Budapest | 1,696,128 | 7,503 | 135.2 | 60.0 |
| Győr-Moson-Sopron | 442,667 | 5,958 | 107.4 | 47.7 |
| Fejér | 428,711 | 5,800 | 104.5 | 46.4 |
| Pest | 1,176,550 | 5,728 | 103.2 | 45.8 |
| Komárom-Esztergom | 315,036 | 5,700 | 102.7 | 45.6 |
| Vas | 263,251 | 5,647 | 101.8 | 45.2 |
| Veszprém | 363,706 | 5,517 | 99.4 | 44.1 |
| Zala | 293,443 | 5,442 | 98.1 | 43.5 |
| Baranya | 398,215 | 5,127 | 92.4 | 41.0 |
| *Heves* | *319,460* | *5,113* | *92.1* | *40.9* |
| Csongrád | 423,751 | 5,055 | 91.1 | 40.4 |
| Tolna | 240,966 | 5,010 | 90.3 | 40.1 |

| County | Population | Purchase power per capita | | |
|---|---|---|---|---|
| | | EUR / per capita | index / per capita Hungary=100 | index / per capita Europe=100 |
| *Hajdú-Bihar* | *545,641* | *4,871* | *87.8* | *39.0* |
| *Nógrád* | *213,030* | *4,865* | *87.7* | *38.9* |
| Somogy | 328,496 | 4,807 | 86.6 | 38.5 |
| Bács-Kiskun | 536,290 | 4,780 | 86.1 | 38.2 |
| *Jász-Nagykun-Szolnok* | *403,622* | *4,759* | *85.8* | *38.1* |
| *Borsod-Abaúj-Zemplén* | *718,951* | *4,659* | *83.9* | *37.3* |
| Békés | 382,190 | 4,590 | 82.7 | 36.7 |
| *Szabolcs-Szatmár-Bereg* | *576,054* | *4,341* | *78.2* | *34.7* |
| Hungary | 10,066,158 | **5,549** | 100.0 | 44.4 |

Source: HCSO, 2009 (Most recent data at the time of this Study)

The next table shows cities and towns with more than 20 thousand inhabitants. It is clear that Central Hungarian and Western Hungarian cities have higher purchase power, while Eastern and Southern cities have lower purchase power than the national average.

**Purchase power in Hungary by cities over 20k population**

| Settlement | Region | Population | Purchase power per capita | | |
|---|---|---|---|---|---|
| | | | EUR / capita | index / capita Hungary=100 | index / capita Europe=100 |
| Budaörs | Central Hungary | 27,004 | 7,620 | 137.3 | 61 |
| Szentendre | Central Hungary | 24,620 | 6,676 | 120.3 | 53.4 |
| Siófok | Southern Transdanubia | 23,982 | 6,621 | 119.3 | 53 |
| Paks | Southern Transdanubia | 20,204 | 6,466 | 116.5 | 51.7 |
| Dunakeszi | Central Hungary | 32,768 | 6,455 | 116.3 | 51.6 |
| Keszthely | Western Transdanubia | 21,289 | 6,444 | 116.1 | 51.5 |
| Gödöllő | Central Hungary | 32,495 | 6,398 | 115.3 | 51.2 |
| Mosonmagyaróvár | Western Transdanubia | 31,490 | 6,298 | 113.5 | 50.4 |
| Dunaújváros | Central Transdanubia | 50,084 | 6,265 | 112.9 | 50.1 |
| *Hajdúszoboszló* | *North Great Plain* | *23,383* | *6,244* | *112.5* | *50* |
| Tata | Central Transdanubia | 24,805 | 6,139 | 110.6 | 49.1 |
| Érd | Central Hungary | 62,408 | 6,090 | 109.7 | 48.7 |
| Szigetszentmiklós | Central Hungary | 29,177 | 6,089 | 109.7 | 48.7 |
| Vác | Central Hungary | 33,213 | 6,049 | 109 | 48.4 |
| Szekszárd | Southern Transdanubia | 34,174 | 6,014 | 108.4 | 48.1 |
| Esztergom | Central Transdanubia | 30,261 | 5,893 | 106.2 | 47.1 |
| *Gyöngyös* | *North Hungary* | *32,728* | *5,790* | *104.3* | *46.3* |
| *Jászberény* | *North Great Plain* | *27,386* | *5,688* | *102.5* | *45.5* |
| Nagykanizsa | Western Transdanubia | 50,823 | 5,642 | 101.7 | 45.1 |
| Ajka | Central Transdanubia | 30,213 | 5,586 | 100.7 | 44.7 |

| Settlement | Region | Population | Purchase power per capita | | |
|---|---|---|---|---|---|
| | | | EUR / capita | index / capita Hungary=100 | index / capita Europe=100 |
| *Hatvan* | *North Hungary* | *21,314* | *5,575* | *100.5* | *44.6* |
| Várpalota | Central Transdanubia | 20,927 | 5,417 | 97.6 | 43.3 |
| Gyál | Central Hungary | 22,552 | 5,416 | 97.6 | 43.3 |
| Gyula | South Great Plain | 32,239 | 5,375 | 96.9 | 43 |
| Békéscsaba | South Great Plain | 65,206 | 5,350 | 96.4 | 42.8 |
| Pápa | Central Transdanubia | 33,080 | 5,315 | 95.8 | 42.5 |
| *Kazincbarcika* | *North Hungary* | *30,709* | *5,280* | *95.1* | *42.2* |
| *Salgótarján* | *North Hungary* | *39,640* | *5,268* | *94.9* | *42.1* |
| Orosháza | South Great Plain | 30,688 | 5,085 | 91.6 | 40.7 |
| Dombóvár | Southern Transdanubia | 20,272 | 5,025 | 90.5 | 40.2 |
| Szentes | South Great Plain | 29,785 | 5,022 | 90.5 | 40.2 |
| Kiskunhalas | South Great Plain | 29,318 | 4,999 | 90.1 | 40 |
| Kiskunfélegyháza | South Great Plain | 30,946 | 4,995 | 90 | 40 |
| Nagykőrös | South Great Plain | 25,328 | 4,992 | 90 | 39.9 |
| Baja | South Great Plain | 37,462 | 4,971 | 89.6 | 39.8 |
| Hódmezővásárhely | South Great Plain | 47,485 | 4,961 | 89.4 | 39.7 |
| Makó | South Great Plain | 24,986 | 4,783 | 86.2 | 38.3 |
| Komló | Southern Transdanubia | 26,465 | 4,687 | 84.5 | 37.5 |
| *Hajdúböszörmény* | *North Great Plain* | *31,910* | *4,605* | *83* | *36.8* |
| *Törökszentmiklós* | *North Great Plain* | *22,340* | *4,569* | *82.3* | *36.5* |
| *Karcag* | *North Great Plain* | *21,439* | *4,467* | *80.5* | *35.7* |
| Békés | South Great Plain | 20,846 | 4,384 | 79 | 35.1 |
| *Ózd* | *North Hungary* | *37,040* | *4,360* | *78.6* | *34.9* |

Source: HCSO, 2009

## 3.2. Hungary's involvement with the European Union

Hungary became a member state of the European Union on the 1st of May 2004. Up to this date the country had already had almost fifteen years of experience with EU grants, in the form of EU pre-accession funds. After the EU accession Hungary became a beneficiary of the Structural Funds. A brief summary is given below of the types of EU funding programmes Hungary has implemented from 1990 to the present.

### 3.2.1. Pre-accession funds (1990 – 2004)

In the pre-accession period Hungary was a beneficiary of all three pre-accession funds made available for countries preparing themselves for EU membership; the ISPA, the SAPARD and the PHARE programmes.

ISPA was a pre-accession instrument for structural policy, granting assistance for environmental protection and transport projects. SAPARD was the special pre-accession programme supporting sustainable agricultural and rural development. PHARE programmes have been running since 1990 in Hungary, and focused on supporting institutional development and investments.

PHARE was the forerunner of the Structural Funds, whilst ISPA was the forerunner of the Cohesion Fund, and SAPARD was the forerunner of the agricultural funds. From 2000 on, PHARE had been mainly focused on economic and social cohesion, prioritising institution building, with special regard to the "twinning" programmes and connecting supporting investments. The "twinning" programme provided an opportunity for Hungarian professionals to increase the efficiency of their organisations by working together with European Union colleagues.

Through different PHARE programmes approximately €1.5 billion was awarded to project beneficiaries in Hungary over the 15 years PHARE was in operation.

### 3.2.2. Structural Funds (2004 – 2006)

After the accession of Hungary to the EU, the 2004 – 2006 National Development Plan had five OPs using Structural Funds. A 670 billion HUF grant was made available for the implementation of project ideas that were eligible under the five OPs:

- Agricultural and Rural Development OP
- Economic Competitiveness OP
- Human Resource Development OP
- Environmental Protection and Infrastructure OP
- Regional Development OP.

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### 3.2.3. Structural Funds (2007 – 2013)

In the current programming period (2007 – 2013) Hungary has a grant of 22.4 billion Euros to use in closing the development gap between Hungary and the more developed countries in the EU. The following OPs are being implemented between 2007 – 2013:

Sectoral OPs:

- Economic Development OP
- *Transport OP*
- Social Renewal OP
- Social Infrastructure OP
- Environment and Energy OP
- State Reform OP
- Electronic Public Administration OP

Regional Ops[2]:

- West Pannon OP
- Central Transdanubia OP
- South Transdanubia OP
- South Great Plain OP
- *North Great Plain OP*
- *North Hungary OP*
- Central Hungary OP

In addition, there is an implementation OP which is dedicated to technical assistance.

There are three OPs (italicised and in blue in the above table) that still have available funds left for this programming period which could be allocated to JESSICA (North Great Plain, North Hungary, and Transport). These OPs will be considered in more depth later in the report.

Comparing GDP and Purchasing Power, Hungary is among the poorer countries in the EU. Within Hungary itself there are also regional differences, with the North Great Plain and North Hungary regions being areas which have seen less investment and have a lower purchasing power compared to Hungary as a whole. Both before and after its accession to the EU, Hungary has received a number of EU grants to aid development, amounting to several billion Euros. It therefore has experience in administrating EU funds. Hungary is a suitable candidate for JESSICA in needing development initiatives and having existing funds available for this programming period.

[2] In the current programming period all the 7 regions of Hungary have their own regional OP.

# 4. Overview of Urban Regeneration in Hungary

This chapter reviews the history and nature of urban regeneration in Hungary and provides some brief information on the urban policy and the planning context for regeneration. It also covers subtopics like urban regeneration investments needs, and also the involvement and cooperation of the public and private stakeholders in urban development.

## 4.1. History of Urban Regeneration in Hungary

The political and economic changes in Hungary following 1989 meant that in brown-field areas, many industrial and military sites were abandoned, and left to pockmark cities. Cities across Hungary became less attractive for local inhabitants, investors, private sector stakeholders and tourists. In addition to this, urban regeneration was not regarded as a priority area for the pre-accession funds Hungary started receiving from 1990 onwards.

It was only after more than a decade of EU pre-accession funds that Hungary started to focus on the regeneration of existing urban areas, in the last regional development pre-accession (PHARE) programme, which started in 2003. Following Hungary's accession to the EU, this programme provided the base for new urban regeneration programmes, which were financed from Structural Funds. Through these programmes many Hungarian cities were encouraged to design and implement urban regeneration projects. Thus most urban regeneration projects in Hungary were stimulated by EU investment and funding programmes.

The first urban renewal programme in 2003 was the 'Promotion of integrated local development actions' 2002/2003 regional development PHARE programme, which covered all seven regions of the country. It was a major milestone in the history of urban development and urban regeneration in Hungary. The real need for this type of programmes was shown by the huge number of applicants, and the amount requested by the potential project beneficiaries. Although the budget of the programme (€100 million) was higher than the amount spent on any previous regional development PHARE programme in Hungary between 1990 and 2001, applicants requested amounts totalling quadruple the available amount.

The programme directed investment to unused or under-exploited industrial areas or military sites, or depressed urban areas. The programme had three related components:

- Regeneration of settlement areas and industrial and military sites for the development of job creating activities
- Improving accessibility within regions through the development of public road infrastructure
- Promoting employment based on local initiatives, in connection with the new functions of the developed urban area and buildings.

47 cities received necessary resources from this programme for the successful implementation of 49 urban regeneration projects.

Later the first National Development Plan covering the period 2004-2006, and the new National Development Plan covering the period 2007-2013, set forth different types of urban regeneration programmes in the country. As a result, in the last few years, a large number of Hungarian towns have participated in these programmes.

In the 2007-2013 programming period, in order to provide funding for the regeneration of urban areas, the EC required the preparation of IUDS and AP in Hungary. Of the 328 cities in Hungary, 200 have prepared an IUDS. Whilst the quality of these plans are rather diverse, it is positive that the majority of Hungarian towns and cities now have documents setting out how the town or city should grow and develop in an integrated manner. Such IUDS meet the EC requirements that urban rehabilitation projects financed by Structural Funds from 2007 should form part of an Integrated Sustainable Urban Development Plan (IPSUD). This is also a requirement for projects financed from JESSICA investments.

## 4.2. Urban planning in Hungary - Integrated Urban Development Strategy and Action Plans

An IUDS is a document that defines the main strategic direction of a city over the medium term (7-10 years), and considering predicted demand, these strategies define planned developments in line with the outlined objectives.

In 2007, the relevant Government Ministries published guidance on IUDS development in a handbook3 which was subsequently updated in 2009.

The IUDS is developed based on a spatial planning approach integrating different thematic angles. It harmonises different policy approaches to development spatially (e.g.: economic development, environmental development, transport/infrastructure development, realisation of social objectives etc.). It balances the objectives and demand for development of involved partners (business sector, civil sector, characters of public sector, society) to provide a mechanism for decision making on urban development within municipalities. An additional element of the integrated approach is that the IUDS enables the integration of different development objectives, financing mechanisms and issues of sustainability.

The main aspects of an urban development strategy are:

- an integrated approach (focused on creating connection of several measures in a smaller area to maximise effect),
- mobilisation of public (EU and national) and private contributions,
- transparency of the selection of development action areas,
- strong local partnership, assurance of transparency for the public.

The IUDS is developed by analysing the city at a city wide level, but also specific city

[3] Ministry of Local Government and Regional Development: Urban rehabilitation in 2007-2013, handbook for cities; (2007) Ministry for National Development and Economy: Urban development handbook, second and modified (2009)

areas in depth to create urban objectives and objectives related to different areas of the city, and to define action areas outlining where priority developments should be executed.

A crucial element of IUDS is that it also contains an implementation plan along with the definition of development objectives and direction built from the situation analysis. Where there are development opportunities identified, the IUDS provides an estimate of resources required and where they might originate from in order to meet the urban development objectives. This is the reason why it is important to annually review the IUDS and to reconsider it every 3-5 years. It is important to update and to adjust the strategy to changed external conditions and to define new development areas as action area developments get completed. The update is carried out by the municipal administration and relevant planners, and approved by the local council.

The strategy emphasises working with partners to promote integration and sustainability. It provides proposals for establishing institutional systems (urban development association) to create integrated development, and regarding city marketing and communication activities.

The IUDS is the fundamental strategic documentation of a city over the medium term, and for its implementation it is important that the city council negotiates and approves it in a form of a decree, as the strategy primarily defines manageable interventions and planned directives and objectives for the local government of the city. It is an important role of the strategy to preserve the support of partners (involved in planning) and to realise private and public sector activities.

The AP is the harmonised urban development execution plan of the local government which supports the IUDS and structure plans. It is steered and controlled by the local government which provides an execution plan (structural, technical and financial) for the municipality (similar to feasibility studies). An urban development AP for a complex municipal development has timeframes, defined technical, economic, social and urban architectural results along with defined financial parameters (expenses and income). This methodology is built upon the structured cooperation of the public and private sector.

So far IUDS have not yet been comprehensively evaluated nor have been new proposals been defined based on evaluations. Péter Szaló, Deputy State Secretary for Territorial Planning and Construction, declared in May 2011 that in Hungary[4] there are more than 200 cities with prepared urban development strategies and out of this amount one third provides for high quality urban development.

## 4.3. Key urban regeneration investment areas

Since the urban planning tool of IUDS was introduced in 2007, cities now have strategic overviews of the urban and socio-economic issues inside their territories. Cities have exact analysis of the local situation which can be used to identify problem areas and measure the local social-economic demand for new infrastructure. Based on our current and earlier analysis of local IUDSs, and taking into account the different characteristics exhibited by different cities, a few typical problem areas have been identified:

<u>Development of brownfield areas</u>

Large industrial sites, developed several decades ago, are now largely abandoned, or utilised in an extremely fragmented tenancy structure by small and micro enterprises. Yet these areas are now very well positioned urban locations and their redevelopment will be an important part of the economic restructuring of cities. Similar brownfield-type sites are the former military bases and barracks located inside the urban structure of larger cities.

<u>Housing estates</u>

The large scale public housing construction programme of the 1960s and 70s still provides a significant stock of middle income housing in many cities, including Budapest. These neighbourhoods mainly lack technical quality, consume too much energy and were built on such a large scale that they are anonymous and monotonous. These areas are becoming less and less popular and cause segregation. The technical (energy efficiency) and social (development of public spaces) revitalisation of housing estates is an essential part of the urban development agenda of larger cities.

<u>Urban transport developments</u>

Public transport lost a great deal of appeal and ridership in the last decades, partially due to increased car ownership. Devising new urban transport policies which strengthen public transport, integrate urban and regional commuter networks, creating intermodal stations and develop parking garages are key for sustainable urban development not only in large cities like Budapest but in secondary towns as well.

<u>Development of greenfield areas</u>

Attracting investors, creating new workplaces, and developing new urban areas are usually top of the local development agenda of cities. Greenfield areas are the most popular locations for new modern developments for the private sector (shopping areas, industrial parks, residential parks or leisure areas). Municipalities prefer greenfield developments in cases where large-scale private investors are seeking a new location or the city can gain financially through the development. The development (together with the necessary infrastructure and transport access) of greenfield areas is an important part of local urban developments and has the potential for revenue generation.

Public water utility association

The sewage pipeline network for settlements is lagging behind EU requirements and Hungary needs to achieve the required level of sewage systems and related wastewater treatment systems. The settlements organise public water utility associations (VKT) for the technical and financial (collecting the contribution of property owners) management of developments. The operational costs of VKT are low, the income comes from the contributions and from the loan. Commercial banks already have a significant portfolio in this area, nearly 100 billion HUF loan has been placed.

## 4.4. Public sector involvement in urban regeneration and European funding

Whilst there is an active real estate private sector market in Hungary in the more prosperous areas, such as Budapest and the larger cities, which develop and fund urban development projects (see section 4.5), most regeneration projects focused on the above investment needs find it difficult to attract private investment and commercial loans, especially since the international financial crisis. As a result most of these types of projects are developed and sponsored by local Municipal authorities who develop projects based on the needs identified in the IUDS. These projects are generally funded by the public sector and are frequently supported through grants from European funding programmes.

The Hungarian National Strategic Reference Framework (NSRF) states that EU funding will be invested to achieve the strategic objectives of sustained long-term growth and increase in employment. Hungary has translated the broad priorities contained in the NSRF into 15 OPs (see section 3.2.3) under the Convergence Policy, and the Regional Competitiveness and Employment Objectives of the EC. Of these, 13 Programmes receive funding from ERDF and the Cohesion Fund, and two Programmes receive funding from the European Social Fund (ESF). Of these 13 OPs, eight are sectoral (including Transport OP) and seven are regional (including the North Hungary OP, and North Great Plain OP).

The Regional OPs periodically issue calls for expressions of interest for municipalities to put forward projects to receive funding from the ROP. For cities to respond to these tenders, they must have an IUDS in place for the current funding period for the OPs, which is from 2007 to 2013. Correspondingly projects should then form part of an IUDS to be eligible for funding through the ROPs.

Details on the Transport, North Great Plain, and North Hungary OPs, which are the key areas for this Study which have funding available to invest in JESSICA instruments in this programming period are found in Chapter 6.

## 4.5. Private sector involvement in urban regeneration

This section provides a brief summary about the contribution of the private sector stakeholders to urban regeneration projects in Hungary following the political and economic changes of 1989. The current real estate market trends and the effects of the financial crisis are also summarised.

Hungarian development projects – Real estate markets:

The commercial real estate investment sector was a fast growing industry at the start of the 21st century in Hungary, primarily due to the economic boom the country was experiencing. Since the end of the 1990s, market actors have either been international or consolidated Hungarian companies, and commercial property markets have operated in accordance with European standards and reached levels of activity commiserate with other European markets. Modern real estate products were developed and initially targeted the Central-Hungary region for investment, and subsequently the secondary cities.

Foreign investors at the end of the 1990s and at the beginning of the 2000s enjoyed higher profits than in Western European countries and an advantageous business environment compared to Eastern Europe for several years. In the latter years of the boom, the yields in the commercial property market came near to the Western European levels. Some investors sold their properties in Hungary and turned to the Eastern European countries for higher profit prospects. Even solid big Hungarian investors (Trigránit, Futureal) showed interest in these newly joined EU countries.

However in 2008, the financial and economic conditions changed dramatically. Since then it has become more difficult to finance good quality projects and to obtain loans. Banks demand high risk premiums resulting in high interest rates and the required amount of the project sponsor's own capital has also increased. Developers and investors suffer from these constraints, since they need these loans to realise developments. As a result of **the** lack of financing possibilities, developers and investors are more dependent on public contributions and possibly other private funds. However, despite the crisis, investors remain interested in, and can be considered important partners in urban development.

Housing became the main focus of government plans for urban development during 2000. The aim of the policy introduced by the government was to promote new housing construction by providing interest subsidies on residential mortgages in order to upgrade the ageing and obsolete housing stock. After 2002 the priorities of the government changed, and the system of subsides shrunk. Those buying low-cost housing products lost the financial base for the purchasing. As a result, a major part of demand for housing disappeared from the market. Even new property owners have difficulties as many have to manage foreign exchange loan rates in order to avoid foreclosures.

The Hungarian real estate market trends are currently as follows:

- Real estate investors are focused on the Central Hungarian region, mainly on Budapest,
- Commercial investments on the countryside have almost disappeared,
- Housing market remained active only in the higher prestige segment of Budapest,
- Obtaining loans for real estate investments is more difficult and expensive.

The real estate market will need to get used to a long period of slower growth. The increase of value of property will most likely be similar to the inflation index. The financial market remains difficult for property developers and investors. Considering the current market situation and the conservative economic forecasts, project owners will turn to alternative funding mechanisms, such as those presented by JESSICA

## 4.6. Public and private sector partnerships and development projects

The most important common characteristic of projects where the private and public sector collaborate on a project is that development is controlled by the public sector, and that there is a cooperation agreement between the public and private sector about the development programme. The complex – technical and financial – scenario of implementation is the urban development AP, used by the municipality as a guideline to control the implementation process. In general private involvement models – where risk-sharing is involved– are very limited in Hungary.

Involvement of the private sector in implementing municipality investments is feasible for numerous purposes. These include construction of rented homes; water and canalisation investments; solid waste management; construction of local public roads; local public transportation; construction of kindergartens; creation of sports halls and stadiums; health care; modernisation of public lighting, etc.

The typical model of urban renewal in Hungary is:

1. During the preparation phase the urban renewal companies (in general the public sector, municipalities) invest in the improvement of public infrastructure (public utilities, public spaces) and prepare some marketable building plots and perform some social/economic tasks.
2. After selling properties for private builders for development/renewal (through well controlled tender), the private sector invests in the implementation of urban development projects (real estate projects) which contribute to the integrated plan.
3. Parallel with the private investments, public sector use the generated income for
   - Follow up: the preparatory works within the rehabilitation area (in new blocks, etc)
   - Upgrading public spaces
   - Refurbishment of municipality owned properties and new developments (buildings with social flats; institutions managed by municipalities, like kindergarten, offices of municipality, etc).

We can find some successful urban development programmes with private involvement in Hungary. The SEM IX. model was introduced in 1992 in District 9 of Budapest. The programme was based on the well-known French model. The municipality separated some activities related to the rehabilitation, and entrusted them to this non-profit organisation: the management of demolition and slum clearance, the development and upgrading of infrastructure, and the sale of “development ready” plots. SEM IX Zrt., as a non-profit company, has to reinvest all the earned money into the rehabilitation procedure. A similar programme was launched in the neighbouring District 8 with the company Rév8 with a more comprehensive task description. In both cases the municipal preparation activities were financed first from the budget of the district and later from the income of the sales of development sites. Private developers used the traditional construction loan (from residential developments) and project financing (from commercial facilities).

Details on the key players involved in the financing of urban development and regeneration are discussed in the next chapter.

In conclusion, public bodies are the main force behind urban regeneration in Hungary currently, particularly following the international financial crisis. However, there have been examples of successful public-private partnerships in the past, and so this model might be a useful way of encouraging an increase in private investment in the future.

# 5. The financing of urban regeneration in Hungary

This chapter provides a brief summary of the characteristics of and the differences in the financial sources used by public and private sector stakeholders carrying out urban renewal projects in Hungary. The changes wrought by the financial crises and the usefulness of new types of financing for urban renewal projects are also discussed.

## 5.1. Financing urban renewal

The state of play regarding the use of grants versus loans in urban renewal can be summarised as follows in Hungary. The public sector is predominantly grant oriented; municipalities can achieve 85% support in most cases. They extend their yearly budget from supported loans specified for municipalities for specific needs (like improvement of public infrastructure, urban renewal, environmental developments, social housing, etc). The private sector_uses construction loans (short term loans, where the subject of eligibility is the borrower (company)) and project financing loans (medium term loans, where the subject of eligibility is the project (cash-flow, IRR).

The role of bank loans and guarantees in urban development is essential. The public sector uses bank financing in direct project development or to provide their own capital for EU related or national tenders. Tenderers often need bank guarantees from the applicant to ensure the proper use of grants.

The Hungarian municipality loan market is characterised by the following main particularities:

- in theory, customers have a considerable number of opportunities to involve sources;
- an increasing demand for loan sources due to the existence of own capital requirements for EU applications;
- an attractive market for banks (because of opportunities to sell other products).

Currently, only several hundred of the more than 3200 municipalities, mainly cities and towns, are not able to take loans due to the own income limit stipulated by law and there are numerous municipalities that do not dare to take even a small debt due to the risks related to the changes of municipality regulations.

After the financial crisis it has become more difficult to finance urban projects by obtaining the necessary loans. Banks demand high risk premiums resulting in high interest rates and the required share of own capital has also increased. Municipalities, private developers and investors suffer equally from these restraints, since they need these loans to realise developments.

## 5.2. Financial institutions supporting urban development

### Public banks

The *Hungarian Development Bank (MFB)* is a public financial institution. One of its responsibilities is to finance the investments of municipalities / local governments in the fields of infrastructure development and other areas.

This has been developed into the Municipal Infrastructure Development Loan Programme. This programme enables local governments to apply for preferential interest loans maturing in 20 years for infrastructure development and investment activities. It provides financing for reconstruction and development tasks related to environmental protection in the community; for work related to roads, sewage networks and street lighting; the development of facilities owned by municipalities; and for investments related to the development of public education institutions and the cultural infrastructure of communities. Financing is now also available for the developments of local government health-care institutions as well as municipal IT developments.

The loan is accessible directly (from MFB) or indirectly (from other commercial banks). This ensues primarily with the involvement of commercial banks under a refinancing framework, and therefore the municipalities requesting loans can apply for the preferential financing at their own account-holding bank. The MFB also has a number of subsidiaries, some of which provide financing relevant for urban development.

MFB (Hungarian Development Bank) operates several financing programmes including mainly loans/guarantees provided to enterprises and municipalities. MFB has 50 subsidiaries, however, there is no dedicated MFB subsidiary or financing construction which is specialised/dedicated especially to urban development financing.

**MFB financing programmes**
For financing of companies/projects under JESSICA the following sources (co-financing programs) might be available at MFB at project level.:

- *Investment or project loans,*
- *New Hungary program for Small and Middle-Sized companies,*
- *New Hungary program for Enterprise Development program*

**MFB has two projects from which loans may be available for urban development purposes for municipalities:**

- *Municipality Infrastructure Development loan program*
- *Municipality Infrastructure Development bond program*

**MFB Invest (subsidiary of MFB) provides equity financing**, which might be provided also to companies/projects under the JESSICA mechanism.

*Investment policy of MFB Invest:*

– Capital financing of fast growing, innovative companies and in special cases start-up companies as well.
– Promoting the development of active enterprises.
– Realisation of investments under business conditions (regarding job creation and economic stimulation considerations).

- *The amount that may be invested into one business organisation or project:*
  The amount of capital to be invested by MFB Invest Plc. (Public limited company - company limited by shares) into one business organisation or into other business organisations under the control of MFB Invest Plc is at least €450,000 but at most 25% of the equity of MFB Invest Plc. (including the amount of the real estate sales contract signed with the business organisation).
  *Time limit of investments:*
  Exit must be realised within five years from disbursement taking into account the individual economic characteristics of the investment (portfolio company).
- *Method of investment:*
  Capital investment basically means taking part in the establishment of a project company or making investment into a business organisation by increasing capital at par or above par (premium).

**MFB vs commercial bank loans**

The annual interest conditions of the MFB Plc. loans are as follows*:

| Financing programme | Interest |
|---|---|
| Municipality bond financing programme | 3 months EURIBOR + RKO1/RKO2** + Max 1.5% |
| Municipality loan financing programme | 3 months EURIBOR + RKO1/RKO2** + Max 1.5% |
| SME loan financing programme | 3 months EURIBOR x 0.75+0.75%+max 5% |
| Enterprise Development programme | 3 months EURIBOR + Max 5.2% |
| Project/investment loan | N.A. |

*www.mfb.hu (30 September 2011)

** Variable refinancing interest rates published annually by MFB, at the date of this report both of them are 2%.

Based on this, the total interest applied by MFB in 2011 was as follows.

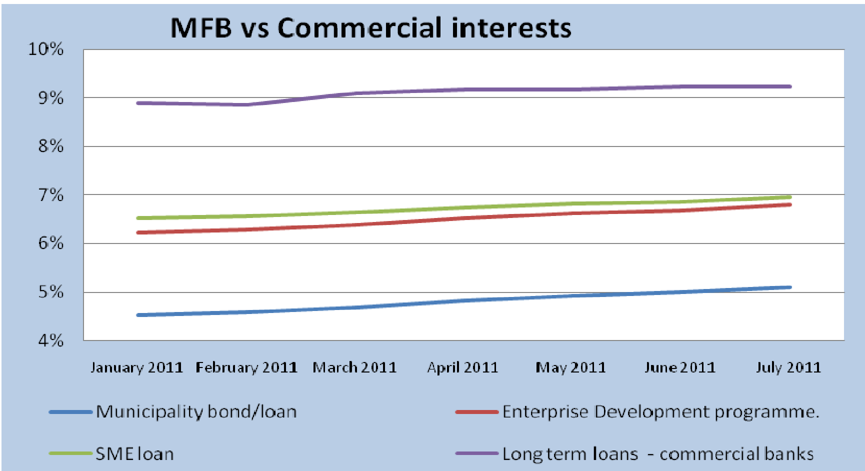
| | Municipality bond/loan | Enterprise Development program* | SME loan* |
|---|---|---|---|
| January 2011 | 4,52% | 6,22% | 6,51% |
| February 2011 | 4,59% | 6,29% | 6,57% |
| March 2011 | 4,68% | 6,38% | 6,63% |
| April 2011 | 4,82% | 6,52% | 6,74% |
| May 2011 | 4,93% | 6,63% | 6,82% |
| June 2011 | 4,99% | 6,69% | 6,87% |
| July 2011 | 5,10% | 6,80% | 6,95% |

*taking into consideration the maximum interest spread

The average interest (annualised) rates used by commercial banks were as follows* during 2011:

| | Other loan | Short term loan | Long term loan | Long term loan (maximum 5 years) | Long term loan (Minimum 5 Years) |
|---|---|---|---|---|---|
| January 2011 | 8,7% | 8,4% | 8,9% | 9,3% | 8,5% |
| February 2011 | 8,7% | 8,6% | 8,9% | 9,2% | 8,5% |
| March 2011 | 8,9% | 8,6% | 9,1% | 9,5% | 8,6% |
| April 2011 | 9,0% | 8,6% | 9,2% | 9,6% | 8,7% |
| May 2011 | 9,0% | 8,6% | 9,2% | 9,6% | 8,7% |
| June 2011 | 9,0% | 8,7% | 9,2% | 9,6% | 8,9% |
| July 2011 | 9,0% | 8,6% | 9,2% | 9,6% | 8,8% |

*Hungarian National Bank statistics (http://www.mnb.hu/Statisztika/statisztikai-adatok-informaciok/adatok-idosorok)




Overall, MFB provides more attractive financing loans than commercial banks.

## Information regarding the use of guarantees in Hungary

The following four legal entities cover the credit guarantee business in Hungary. All of them are related somehow to the Hungarian Government (directly or indirectly). The data provided in this report regarding guarantees is given by the entities, however in some cases only general (limited) information was available.

**1. Garantiqa Hitelgarancia Zrt**. (Shareholders: The Government of the Republic of Hungary + MFB + K&H (Commercial Bank))

In 2010 Garantiqa Creditguarantee Co. Ltd undertook a substantial volume of surety guarantees related to the financing of small and medium-sized enterprises and municipalities.

There were HUF 409 billion in guarantees securing almost HUF 540 billion in loan placements in 2010 by Garantiqua Hitelgarancia Zrt.

**2. Agrár-Vállalkozási Hitelgarancia Alapítvány (foundation with financial contribution of commercial banks, Ministry of Agriculture, PHARE sources)**

The Foundation is aimed to issue on-demand guarantees to micro, small and medium-sized enterprises which are engaged in the agricultural sector or whose activity is related to a rural area.

The issued guarantees promote financing of enterprises which dispose of insufficient funds and which cause thus credit and subsidy risks to banks.

**3. Start Tőkegarancia Zrt (Magyar Válllalkozásfejlesztési Alapítvány + MFB Invest)**

Start Zrt. offers its unique financial products to this client base, mainly for the 29,000 small- and medium-sized enterprises (SME). Start Zrt's products assist SMEs in their efforts to raise development capital and to obtain non-refundable European Union grants.

Start Zrt's direct guarantee of payment for EU grants is available for domestic SMEs, who successfully applied for non-refundable European Union grants under the Nemzeti Fejlesztési Terv (National Development Plan) or the Új Magyarország Fejlesztési Terv (New Hungary Development Plan). The product enables SMEs which do not have an unencumbered real estate or are unable to obtain a bank guarantee to fulfill collateral conditions required in acquiring non-refundable EU grants. Start Zrt. provides guarantee of payment for a minimum of HUF 5 million to a maximum of HUF 100 million for both the implementation and the operation phase of the development project. The use of the product improves the financial flexibility of the enterprise that receives EU grant since Start Zrt. will not require collaterals from its clients.

The equity guarantee product is available for experienced private and institutional financial investors. Start Zrt. provides a guarantee for up to 50-80% of the capital investment in domestic SMEs, for a minimum of HUF 5 million and a maximum of HUF 100 million. This guarantee can be provided for a maximum of 5 years and only if the investment takes place in the form of capital increase performed in cash.

The portfolio equity guarantee product, which provides a maximum of 50% reimbursement for the incidental capital loss on investments made in newly established Hungarian venture capital funds. Start Zrt. provides portfolio equity guarantee for a minimum of HUF 500 million to a maximum of HUF 1,000 million and for a minimum term of 7 to a maximum term of 12 years. The beneficiary of the product may only be such venture capital fund that invests at least 60% of its capital in Hungarian SMEs in the form of capital increase.

Start Zrt. contracts for a profit sharing with its clients in case of its equity guarantee products. In the event the beneficiary of the guarantee realises capital gain on the disposal of the guaranteed investment or the guaranteed venture capital fund does so during the term of the guarantee, a certain percentage of the realised gain shall be payable by the beneficiary to Start Guarantee Fund. Profit sharing aims to increase the value of the Start Guarantee Fund which will serve the development of SMEs even after the closure of the 15-year equity guarantee program.

Guarantees issued by Start Zrt. are backed by the more than HUF 6 billion Start Guarantee Fund, which is managed by the Hungarian Enterprise Development Foundation (MVA).

**4. Magyar Vállalkozásfinanszírozási Zrt. (Venture Finance Hungary) (MFB indirectly):**

The forms of guarantee provided within the programme will improve the chances of small- and medium-sized enterprises of being granted credit. The resources to be invested for this purpose amount to a total of HUF 28 billion over the next seven years.

The aim of the portfolio guarantee programme is to develop micro-, small- and medium-sized enterprises with seat in Hungary by improving their credit options.

Within the portfolio guarantee program, Venture Finance Hungary Plc. provides direct guarantee for the financial claims (backing SME credits) of the financial intermediaries (mostly commercial banks) based on pre-determined risk sharing, thus improving the SMEs' bank finance options. For a given credit, the amount of collateral to be secured by Venture Finance Hungary Plc is a maximum of 80% of the bank claim – the rest constitutes the bank's own risk. Credits that meet the following main criteria can become a part of the credit portfolio offered by Venture Finance Hungary Plc.:

- Newly granted and non-rescheduled credits
- **Scope of applicants:** micro-, small- and medium-sized enterprises (with sector restrictions applicable to state subventions)
- **Credit amount:** a maximum of HUF 200 million
- **Credit target:** investment, service acquisition, current asset financing
- **Term:** max. 10 years
- **Own contribution:** not specified (according to the bank's expectations)
- **Interest rate:** not specified (according to the bank's expectations)
- **Grace period:** max. 2 years for investment credits, max. 2 months for current asset credits

The financial intermediaries that participate in the programme are selected by way of open tendering – they are in contact with the end-beneficiary micro-, small- and medium-sized enterprises, they receive and appraise the credit applications, conclude the contracts, handle the transfers and manage the credit accounts. The main conditions of the guarantee provided by Venture Finance Hungary Plc. are the following:

- **Guarantee:** automatic portfolio guarantee – the intermediary decides on guaranteed credit
- **Coverage preference ratio:** 0-75% of the starting credit amount, based on the intermediary's decision (the amount beyond this is the *guaranteed capital*)
- **Amount:** collateral for a maximum of 80% of the guaranteed claim (non-paid guaranteed capital + max. 6 months of interests)

The *European Investment Bank (EIB)* has had connection with Hungary since 1990 on state level. The EIB is increasingly supporting Hungary's economic development. Over the last two years, in 2009 and 2010, the EIB lending commitments amount to EUR 3.6 billion, while the loan signatures in 2011, including the current loans, already total to some EUR 900 million.[4]

EIB provides loans to co-finance priority projects in Hungary receiving support from EU Funds:

- Co-finance priority investments within the Transport and Environment & Energy OPs. The objective in the transport sector is to improve accessibility with a view to increasing economic competitiveness and strengthening social and territorial cohesion improving Hungary's main roads and railways infrastructure with the focus on environmentally friendly and sustainable modes of transport.
- contribute to sustainable rural development, renewable energy, climate change, biodiversity protection and soil management. The Beneficiaries will be small-scale agro tourism and conservation of rural heritage through co-financing of small scale, particularly private sector projects, in the area of enterprises and communities in rural, agricultural and tourism infrastructure areas in all the regions of the country.
- focus on projects in the road sector improving regional accessibility by upgrading and load-bearing capacity of connecting roads to the Trans-European Transport Network. It will also finance construction of by-passes around cities presently crossed by national roads with a high load of long-distance transit traffic.
- support in all regions of Hungary the development of regional outpatient specialist care centres, the preparation of the institutional system of in-patient specialist care for structural change and IT development activities in the health care system.

## Financial institutions supporting urban development: Commercial banks

Commercial banks are also active players in urban renewal, financing first of all projects. More than one tenth of Hungary's GDP is spent by local municipalities but, despite this fact, the number of commercial banks dealing with loans to municipalities is high. The so-called 7 big banks provide municipalities with 97% of loans[5]. Main banks at urban development projects: OTP, CIB, MKB, UniCredit, K&H, Erste, Raiffeisen. We can find examples even for cases, where the developer works together with foreign bank that has no local offices. The importance of municipality bonds is also high (both short- and long-term bonds).

According to the analysis of the Hungarian National Bank[6], there was a sharp increase in banks' perceptions of the risks associated with lending to municipalities in 2010, resulting in stricter credit conditions and declining credit availability. As a consequence, loans at

[4] Source: eib.com
[5] Source: Hungarian National Bank (May 2011)
[6] Summary of the aggregate results of the survey for 2010

favourable interest rates and with relatively looser credit conditions are no longer available for local authorities. This also means that municipalities will seek for alternative financial sources for project funding and JESSICA can be a real option.

Banks' responses indicated that many municipalities have become excessively indebted, while their revenues have fallen considerably. As a result, a number of municipalities need to borrow to finance their operations, with banks being less willing to lend for such purposes. Banks reported a broad-based perceived deterioration in the quality of municipality loan portfolios and expected a further deterioration in the coming six months. All this was reflected in the fact that loans have been restructured in a number of cases. An additional well-known fact is that there is a significant outstanding amount of municipality bonds denominated in Swiss Franc (CHF), which may lead to deterioration in the portfolio. A distinguishing feature of these instruments is that borrowers start to repay the instalment after a 3–5 years interest-only grace period, the peak of which is expected for 2012. The difficult financial situation of local municipalities caused by the financial crisis, indebtedness, and the narrowing possibilities for non-repayable grants will turn the focus of settlements to alternative sources to finance their developments.

## New types of financing

Taking into consideration that since 2003 there were available EU grants for urban regeneration in all of the regions, the public sector preferred the use of these sources.

At the same time at the moment of the preparation of this report it is not for sure that in the next programming period 2014 - 2020 the above mentioned sources for urban regeneration will be still available for the local governments in the new OPs. The EC has adopted a draft legislative package which will frame cohesion policy for 2014-2020. Major changes in the content are: strengthening of result oriented approach, focusing on the priorities of the EU 2020 strategic areas, and a new system of criteria, incentives and sanctions. Furthermore there will be a specific support from the ERDF to cities and urban development. The proposal would ring-fence an amount for integrated sustainable urban development measures and for the setting-up of an urban development platform to promote exchanges between cities.

But there can be a market for JESSICA in that case, when the OPs will still provide grants for urban regeneration projects in the next programming period, because of the strictness of the call for proposals concerning the eligible activities, eligible costs, and eligible beneficiaries. Taking into consideration the complexity and the size of urban regeneration projects the combination of the EU grants with the private sources, and bank loans can provide a new perspective for those investments, developments, which can't be financed totally from grant programmes. This means that those parts, elements of the potential large scale, complex projects could be also implemented, which wouldn't be eligible under the grant programmes. This is a market gap where the JESSICA mechanism could be helpful.

The JESSICA initiative could solve the problem of the above mentioned development projects, thus the introduction of JESSICA in Hungary would be welcomed by these projects. At the same time it must be seen clearly that until EU grants are available with low own resource proportion for urban regeneration, those projects which fit into the requirements of the grant, will not be motivated to use the JESSICA sources, only those projects will use it, which can be implemented in the frame of the EU programmes.

# 6. Operational Programmes in Hungary

Within Hungary there are three OPs which have available funds that could be allocated as JESSICA UDFs during the current programming period. These are the Transport OP, the North Great Plain and the North Hungary regional OPs.

This chapter provides information on these programmes and relevant measures. Priority areas and measures which could fund urban development projects, and therefore where funds could be drawn from to allocate to a UDF, are highlighted.

This chapter of the report also sets out a number of possible projects collected from the IUDSs of the cities, that could be funded from these priority areas and measures, which may be suitable for JESSICA investments. These have been assessed in the tables below. Sections of the OP which are relevant for JESSICA are shaded yellow.

## 6.1. Transport OP and urban development

The Transport OP (TOP) covers the entire geographic territory of Hungary, and includes both Cohesion Funds (all regions) and European Regional Development Funds (all regions except Central Hungary).

| **Strategic objectives of the OP** | **Priority Axes** |
|---|---|
| 1. Improving accessibility with a view to increasing competitiveness and strengthening social and territorial cohesion | 1. Improving the international road access to the country and the regional centres |
| | 2. Improving the international railway and waterway access to the country and the regional centres |
| | 3. Improving regional accessibility |
| | 4. Linking up different modes of transport and improving the intermodality and the transport infrastructure of economic centres |
| 2. Developing public transport | 5. Improving urban and suburban public transport in cities and the surrounding areas |

Only priorities No 4 and 5 specifically have measures and actions dedicated to urban development which could be funded by JESSICA:

| Relevant priority axes | Possible area for JESSICA Financing from the TOP Priority axis |
|---|---|
| 4. Linking up different modes of transport and improving the intermodality and the transport infrastructure of economic centres | The objective of this priority is to increase the intermodality of national and regional transport, establish infrastructure for intelligent traffic management and consequently to improve accessibility in economic and, if possible, environmentally friendly ways. The OP intends to improve the infrastructure links between the intermodal logistics (and economic) centres located along international trade routes by the construction and modernisation of approach roads and factory sidings connected to the main transport network and to link up the various modes of transport physically and organisationally in a way that improves accessibility and increases usage of those traffic modes for freight transport, causing lower greenhouse gas emission and less energy consumption. |
| 5. Improving urban and suburban public transport in cities and the surrounding areas | According to the OP, substantial developments are planned in Budapest, major towns and their suburban areas in order to improve the accessibility and ability to travel within and across cities, to alleviate the crowding on urban transport and improve the safety of transport. The developments encourage the use of public transport, which in turn reduces urban environment impacts such as air and noise pollution. The objective is to establish a public transport network which offers a real alternative to private transport and is economically and environmentally sustainable. The Metro 4 project is an example of a major project implemented under this Priority Axis. |

## 6.2. The North Great Plain OP

Strategic objectives of the OP

Based on the natural and social heritage and the characteristics of the settlement network of the North Great Plain Region, to strengthen regional competitiveness and redress territorial imbalances within the region

| Axes of priority | Aim of the priority | Operations |
|---|---|---|
| Regional economic development | The priority aims at the needs-based expansion and the improvement of the quality of the business infrastructure needed for the setting-up and efficient operation of businesses in order for existing capacities to be better utilised, for enterprises to be strengthened and for working capital to settle. | Infrastructure development of the regional business environment |
| | | Promotion of regional and inter-regional co-operation |
| | | Development of information and innovation services |
| Tourism development | This priority is aimed at the extension of the tourist season, and the promotion of a more balanced distribution of revenues collected from tourism over the year. As a result of longer seasons, tourism proceeds will increase. It also targets the involvement of areas near the existing attractions, which have tourism potential but are as yet unexploited in attracting the region's tourists, as well as the exploration and development of new tourism attractions and areas. | Development of tourism products and attractions |
| | | Development of commercial accommodations |
| | | Development of destination management |
| Improving transport conditions | This priority axis aims to establish faster and safer access to micro-regional service and economic centres, to industrial areas and to tourist attractions by improving the transport network. It also aims to prevent the deterioration of public transport suffered in recent years, and therefore help to reduce the damaging impact of ever-increasing motorisation. | Infrastructure development of public roads and transport |
| | | Development of communal transport systems |
| Development of human structure | The objective of this priority axis is to improve access to and the quality of health, education and training and other public services, in order to increase employability and otherwise ensure that the needs of the population are being met on a daily basis. To a large extent the improvement of the quality of public | Development of the infrastructure of human public services |
| | | Improvement of equal accessibility to public |

| Axes of priority | Aim of the priority | Operations |
|---|---|---|
| | services will directly improve the quality of life offered by settlements in the region. | services |
| Urban and regional development | The relevant operational objective of the priority axis is the improvement of the quality of the built environment. The objective of the priority axis is to provide an attractive settlement environment for the population of the Region establishing a healthy and safe work and residential environment. The objective is to create a settlement environment that meets the needs of the population and holds a satisfactory appeal for economic players and tourists. | *Urban development* |
| | | Regional and settlement-level nature and environmental protection developments |
| | | Strengthen the role of the NGOs, by strengthening their capacities. Religious organisations not included. |

**IUDS and APs of the cities in this region include detailed project descriptions. The next table is a summary of these projects set out under their Action Area headings:**

| NGPOP (Projects) | | | | | | |
|---|---|---|---|---|---|---|
| **City** | **New amenity provision** | **Social rehabilitation** | **Social rehabilitation and new amenity development** | **Economic development** | **New residential zones** | **Brownfield development** |
| Debrecen (regional centre) | • Inner city<br>• Railway station and its surrounding area<br>• Nagyerdő park<br>• South industrial park<br>• Debrecen University, scientific, technologic and innovation park<br><br>The multimodal centre, urban rehabilitation, hotel development, infrastructure development are the most important measures in these action areas. | • Nagymacs<br>• Nagysándortelep –Vulkán telep<br>• Dobozikert<br>• Sóház<br><br>In these areas there are plans for panel refurbishments, development of public places and energy saving developments. | | | • Alcsi island<br>• Szandaszölös<br><br>Besides development of the residential area, infrastructure developments are also planned. | |
| Nyíregy-háza | • Inner city and the environment of the Búza téri market<br><br>Renovation of the market hall, | • Huszártelep<br>• Érkert<br>• Örökösföld<br><br>These projects are | | | | • Tiszavasvári street army barracks |

| | | | | | | |
|---|---|---|---|---|---|---|
| | construction of an underground car park and rehabilitation of public spaces are the key projects in this action area. | focused on social rehabilitation and/or energy saving developments. | | | | Residential and economic developments are planned with cultural and educational amenity provision. |
| Szolnok | • Inner-city<br>• Tiszaliget<br>• Szandai meadows<br>• Alcsi Mester street; ancient barracks and surrounding areas<br>• Alcsi, Milléri channel and surrounding area<br>Construction of a promenade by Tisza river, inner city urban regeneration, spa and recreational developments, infrastructure developments planned for these areas. | | • Széchenyi housing estate, Housing and Varjú street area,<br>• Western housing estate, Thököly street barrack and area,<br>• Western housing estate, Tücsök and Hangya street and area,<br>• Southern housing estate, Körösi street and area,<br>• Social rehabilitation, zoo and hotel construction, park extension and energy development are also included in these projects. | • Southern neighbourhood industrial park regeneration<br>• Southern neighbourhood industrial park extension<br><br>Infrastructure development and industrial park and other brownfield regeneration are planned in these areas. | | |

## 6.3. The North Hungary OP

### Strategic Objectives of the OP

Improve the economic competitiveness of the region while decreasing territorial and social-economic differences within the region

| Axes of priority | Aim of the priority | Operations |
|---|---|---|
| Creation of a competitive local economy | Creation of a competitive local economy in order for the programme to help the establishment of new businesses and to spread new technologies. This axes also aims to exploit opportunities for cooperation both in the areas of the region that have significant potential and also underdeveloped areas, through which businesses' operating efficiency and capacity to produce income will improve and will lead to job creation in the region | Improve businesses' competitiveness |
| | | Encourage the establishment of new businesses |
| | | Development of industrial areas and industrial parks with regional significance |
| | | Support innovative and experimental projects |
| Strengthening tourist potential | Strengthening tourist potential in order for the programme to further the improvement of businesses' competitiveness, job creation and sustainable utilisation of resources – through improving the quality of products and services based on natural and cultural values and structured product mix on the one hand; and by developing network cooperation on the other. | Sustainable development of regional tourist attractions and products: Sustainable development of regional tourist attractions, products, and thematic networks based on the region's peculiar values, basically natural and cultural heritage. |
| | | Developing commercial accommodations and their services |
| | | Regional destination management organisations |
| | | Innovative service centre to promote research and investments in tourism |
| Development of settlements | Development of settlements in order for large cities to draw and retain the inhabitants who have high levels of training and qualifications with a view to improve their innovative potential; to increase the capacity of central | Integrated, action area based regeneration of deteriorated urban areas (e.g., colonies) and estates threatened by degradation (e.g., residential areas containing |

| Axes of priority | Aim of the priority | Operations |
|---|---|---|
| | towns of underdeveloped micro-regions in order to attract capital and provide businesses with better operating environment through developing such towns; and to reduce social and environmental tensions, strengthen social cohesion, and improve quality of life through renewing socially segregated urban areas that constitute environmental risk. | prefabricated buildings) |
| | | Development of central settlements of micro-regions |
| | | Infrastructural development of rural settlements supplementing the rural development programme |
| | | Protection of our environmental assets, environmental safety |
| Development of human community infrastructure | Development of human community infrastructure, more specifically the renewal of human public services to be organised within the frameworks of micro-regions: public education, health care and social services, which will considerably advance the improvement of the populations' eligibility for employment and the reduction of territorial differences inherent in circumstances of living, and consequently strengthening social cohesion. | Modernising health care services |
| | | Developing social services to strengthen social adoption |
| | | IT development of regional public administration and public service systems |
| Development of regional transport | Development of regional transport in order to improve access to areas with significant economic potential and tourist attractions to central settlements of micro regions and clearways, which might enhance better access to places of work and public services. | |

**IUDS and APs of the cities in this region include detailed project descriptions. The next table is a summary of these projects set out under their Action Area headings:**

| Geographic coverage | New amenity provision | Rehabilitation | Economic development and Redevelopment of Brownfield areas | Developing tourism and historic sites | New residential zones | Infrastructure development |
|---|---|---|---|---|---|---|
| Miskolc (Regional Centre) | • Inner city development 1-2 phases<br>• Miskolctapolca<br>• Diósgyőr city centre<br>• Tiszai railway station<br><br>Multimodal development, urban rehabilitation and tourist development are the key components. | • Avas housing<br><br>The action area is focused on the social rehabilitation of this highly affected area. | • North industrial zone<br>• South industrial zone<br><br>The action areas will reinforce the competitiveness of the industrial zones in order to create more jobs, in a modernised economic environment. | • University campus<br>This action area integrates sport, recreation and research and development projects, a science museum, an IMAX cinema and a swimming pool; creating a new tourist attraction for the city | • Diósgyőr castle<br>• Avas tető<br>• North hills<br><br>New residential development potential have been identified in these areas. | |
| Eger | | • Verőszala social rehabilitation<br>• Felsővárosi housing and spatial rehabilitation | • North industrial zone rehabilitation – OMYA project<br><br>The project includes the preparation and the | • Dobó tér – Eger-creek – Innercity<br>• Eszterházy tér rehabilitation of the archbishop palace<br>• Wine cellars | | • Intermodal centre<br>• Felsőváros subcenter<br>• Western quarter, Bem tábornok sport centre |

| Geographic coverage | New amenity provision | Rehabilitation | Economic development and Redevelopment of Brownfield areas | Developing tourism and historic sites | New residential zones | Infrastructure development |
|---|---|---|---|---|---|---|
| | | • Felsőváros subcenter<br><br>These projects are focused on social problem and rehabilitation. | implementation of economic redevelopment | touristic rehabilitation<br><br>The projects include new amenities and aside of urban rehabilitation underground parking, pedestrian streets construction, cultural amenities are planned. | | rehabilitation<br>• Bypass construction<br>• North side of the creek and public spaces<br>• South side of the creek and public spaces<br>• Felnémet sub centre<br><br>The projects include new amenities, and aside from urban rehabilitation, new developments are planned with new cultural amenity, renewal of public spaces, intermodal centre. |
| Salgótarján | • Inner city development | • Social rehabilitation in the inner city | • A „Nagyállomás" railway station<br>• Industrial park greenfield | • Tóstrand bath touristic action area<br>• Karancs-Medves | • Kőváralja-Baglyasalja residential urban development | |

| Geographic coverage | New amenity provision | Rehabilitation | Economic development and Redevelopment of Brownfield areas | Developing tourism and historic sites | New residential zones | Infrastructure development |
|---|---|---|---|---|---|---|
| | The action area will include underground parking, cultural developments and infrastructural developments. | • Zagyvapálfalva social rehabilitation<br><br>Social rehabilitation is important in Salgótarján, where several areas are affected in the inner city including Zagyvapálfalva, | development<br>• Green and brownfield urban development in the North part of the industrial park<br>• Greenfield development between the Industrial Park and Kotyháza<br>• Brownfield urban regeneration plan on territory of the steel factory<br>• Brownfield regeneration project in Zagyvarakodó area<br>In these projects the infrastructural developments and some hotel developments are planned alongside the extension of the industrial park using brownfield and greenfield development areas. | area touristic action area | New residential development potential is identified here. | |

# 7. Preliminary financial assessment

In order to identify project ideas potentially eligible for JESSICA, IUDS and APs of the relevant cities were examined. The project information was collated from the analysis of the IUDS of selected cities, and from further discussions with the representatives of the local municipalities. The IUDS of the six cities (in alphabetical order: Debrecen, Eger, Miskolc, Nyíregyháza, Salgótarján, Szolnok) with counties in the North Hungary and North Great Plain regions were analysed. A review of the IUDSs of the cities with the number of residents over 25.000 (Jászberény, Hajdúböszörmény, Gyöngyös, Kazincbarcika, Ózd) was also undertaken. From the collected projects (see Annex 9.1).

Of the projects which have been identified as possibly suitable for JESSICA financing in this programming period, five were selected as case studies to undergo detailed financial analysis**.** This analysis aims to help identify possible JESSICA financing requirements for different types of projects within each of the three OPs, where funding is available to allocate to JESSICA UDFs in this programming period. Two projects within the North Great Plain region, two within the North Hungary region, and one within the Transportation OP have been analysed. A description of the methodology for the analysis is provided below, followed by the analysis on a project by project basis, which includes recommendations regarding how each project could become 'JESSICA ready'. The chapter concludes with some thoughts on what this may mean for the financial instruments of JESSICA Hungary UDFs (i.e. loan, equity, guarantees), and the potential size of such UDFs. It should be noted that all of the figures below are based on a significant number of assumptions, as most of the projects identified in this Study require substantial further development work prior to detailed financial analysis or investment being feasible.

Due to the preliminary phase of the projects and the lack of some core financial information, financial assessment was performed aimed at ascertaining the eligibility of these projects for JESSICA financing generally. An assessment of the projects' potential for profit generation and repayment of any loans which might be obtained for their financing has been made. All the following figures have been calculated based on operating, financing and investment assumptions originating exclusively from the project sponsors.

Five different projects which may be eligible for JESSICA financing have been analysed. Due to the limited availability of financial information for four of these projects, financial analysis has only been able to be conducted based on general assumptions that are summarised in point 1.3.

## 7.1. Methodology for data collection

For the selected projects a list of required documents and a questionnaire was provided to the project owners. In addition, telephone interviews were conducted with the relevant project individuals to obtain the necessary information. The questionnaire and interviews covered the following topics:

- *Revenue sources,*
- *Business Plan understanding and main assumptions,*
- *Capital expenditures,*
- *Main operational expenses,*
- *Limiting factors,*
- *Available and required financing and the type of finance needed (equity, loan, guarantee)*

## 7.2. Methodology for data analysis

### 7.2.1. Original methodology planned

The original methodology envisaged for the financial analysis assumed the full availability of financial information with regards to the projects selected for analysis. In the financial analysis of the projects the following areas were planned:

- Business plan and historical analysis,
- Profitability and cash-flows,
- Financing structure,
- Timing of the project,

The following analysis were planned in these areas:

***Business Plan***

- Description of main assumptions
- Analysis of the reasonableness of assumptions and coherence of business plan,
- Comparison of business plan with historical performance.

***Profitability and cash-flows***

- Analysis of revenue generating ability,
- Analysis of positive free cash-flows generated by the project,
- Calculation of ratios: Payback period, Internal Rate of Return (IRR), Return on Investment (ROI) and Return on Equity (ROE).

***Financing structure***

- Summary of currently available funds and missing financial resources,
- Analysis of possible form of JESSICA funding,
- Comment of expectations and level of required returns,
- Calculation of DSCR (Debt Service Cover Ratio).

*Timing*

- Summary of project plan with respect of the timeframe needed for planning, construction, operation and termination / restoration.

The scope of documents to be obtained from project owners in order to prepare a comprehensive analysis were as follows:

- Latest business cases providing the rationale for the project, proposed delivery mechanism and value for money,
- Latest development appraisals showing cash flow forecasts for costs and income over the period, and current IRR for the project,
- Breakdown of costs and income, in particular identifying income streams/ assets which could be used to service the funds or act as security for loans etc.,
- Sources of finance identified to date and level of funding, including any grant, senior/mezzanine debt, partner equity, and thus any remaining funding gap,
- If it is an existing project, then high level details of the existing project structure, shareholding of any project vehicle and commercial arrangements in place between the parties.

### 7.2.2. Readiness of projects

Limited financial information was available during the analysis as most of the projects are at the preliminary preparation phase, or have been postponed from previous periods without updating the business plan. As a result only the total expected construction budget was available for most of the projects, without a detailed business plan. Only one project was able to provide a detailed business plan and financial data. Therefore in the analysis several assumptions needed to be made for the projects with limited financial information and the methodology adapted accordingly.

The following information was available for financial analysis:

| | Intermodal Centre, Kecskemét | Market Hall Development in Nyíregyháza | Development of Barrack Sites in Nyíregyháza | Market Hall Development in Salgótarján | Old Glass Factory, Salgótarján |
|---|---|---|---|---|---|
| Construction budget | Yes | Yes | Yes | Yes | Yes |
| Business Plan | No | No | No | No | Yes |
| Operational Cash-flow forecast with details | No | No | No | No | Yes |
| Full details | No | No | No | No | Yes |

| | | | | | |
|---|---|---|---|---|---|
| on revenues | | | | | |
| Financing information | No | Partly (old data) | Partly (old data) | No | Yes |
| Timing | No | No | No | No | Partly |

The Old Glass Factory (Salgótarján) project analysis was carried out according to the original methodology envisaged.

The lack of appropriate data for most of the projects required a change in the analytical methodology. This is described below.

### 7.2.3. Projects with well-defined financial forecast

The following general assumptions were used for mature projects:

- Data on project operating revenues, expenditures and results provided by project promoters was considered as reliable and complete. It has not been verified against any benchmarks, as a detailed analysis of assumptions is expected to be performed by the UDF manager at the stage of applying for JESSICA funding.
- Once assumptions concerning project financing (see below) are applied, projects' results are discounted using a discount factor equal to the current reference rate of the National Bank of Hungary (6%).
- The need for JESSICA financing and its type is shown in line with the project promoter's initial expectation.
- Should EUR amounts be used in this in this report, an exchange rate of 270 HUF/EUR has been applied.

### 7.2.4. Projects with limited level of financial information

Due to the preliminary phase of the projects only figures of the initial investment budget could be gathered. Since neither income nor expenditures forecasts were provided, the future revenues and cash flows were not able to be calculated using standard assumptions. Therefore the yearly required revenues/cash-flows for the repayment of the JESSICA loan was calculated using assumptions generated by the Project Team set out below.

The following analysis was performed:

- *Summary of the possible JESSICA financing requirement,*
- *Calculation of the annual principal and interest repayment obligation,*
- *Reverse calculation of the cash income level required in order to be able to repay the JESSICA financing of the given project.*

As a consequence of the missing information the financial analysis is necessarily unable to be comprehensive. As a result, the analysis below sets out what other information and criteria would be necessary for these projects to be able to comply with JESSICA requirements.

The following assumptions and calculation rules were applied during the analysis:

- It was assumed that the JESSICA loans will be granted on the following terms:
    - Up to 50% of eligible project investment budget,
    - Duration of max. 20 years,
    - Interest rate equal to the current reference rate of the National Bank of Hungary (HNB) (currently 6%).

- The summary overleaf presenting an estimated monthly debt service in case of a HUF 10 million loan for 10-20 years term and interest rate ranging from HNB reference rate minus 2pp to reference rate plus 2pp was prepared.

| Monthly repayment liability (principal + interest) | | | | | | | | | | in HUF |
|---|---|---|---|---|---|---|---|---|---|---|
| Repayment period (Years) | Repayment period (Months) | 4,0% | 4,5% | 5,0% | 5,5% | 6,0% | 6,5% | 7,0% | 7,5% | 8,0% |
| 10 | 120 | 101 245 | 103 638 | 106 066 | 108 526 | 111 021 | 113 548 | 116 108 | 118 702 | 121 328 |
| 11 | 132 | 93 767 | 96 187 | 98 645 | 101 139 | 103 670 | 106 238 | 108 841 | 111 480 | 114 154 |
| 12 | 144 | 87 553 | 90 001 | 92 489 | 95 017 | 97 585 | 100 192 | 102 838 | 105 523 | 108 245 |
| 13 | 156 | 82 312 | 84 787 | 87 306 | 89 868 | 92 472 | 95 119 | 97 807 | 100 537 | 103 307 |
| 14 | 168 | 77 835 | 80 338 | 82 887 | 85 483 | 88 124 | 90 810 | 93 540 | 96 314 | 99 132 |
| 15 | 180 | 73 969 | 76 499 | 79 079 | 81 708 | 84 386 | 87 111 | 89 883 | 92 701 | 95 565 |
| 16 | 192 | 70 600 | 73 158 | 75 768 | 78 430 | 81 144 | 83 908 | 86 721 | 89 583 | 92 493 |
| 17 | 204 | 67 639 | 70 225 | 72 866 | 75 561 | 78 310 | 81 112 | 83 966 | 86 871 | 89 826 |
| 18 | 216 | 65 020 | 67 632 | 70 303 | 73 032 | 75 816 | 78 656 | 81 550 | 84 497 | 87 496 |
| 19 | 228 | 62 687 | 65 327 | 68 028 | 70 789 | 73 608 | 76 486 | 79 419 | 82 408 | 85 450 |
| 20 | 240 | 60 598 | 63 265 | 65 996 | 68 789 | **71 643** | 74 557 | 77 530 | 80 559 | 83 644 |

- The following table presents the annual debt service in case of a HUF 10 million loan for 10-20 years term and interest rate ranging from HNB reference rate minus 2pp to reference rate plus 2pp.

| Annual repayment liability (principal + interest) | | | | | | in HUF | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Repayment period (Years)** | **4,0%** | **4,5%** | **5,0%** | **5,5%** | **6,0%** | **6,5%** | **7,0%** | **7,5%** | **8,0%** |
| 10 | 1 214 942 | 1 243 661 | 1 272 786 | 1 302 315 | 1 332 246 | 1 362 576 | 1 393 302 | 1 424 421 | 1 455 931 |
| 11 | 1 125 201 | 1 154 247 | 1 183 739 | 1 213 672 | 1 244 044 | 1 274 852 | 1 306 092 | 1 337 761 | 1 369 854 |
| 12 | 1 050 634 | 1 080 010 | 1 109 868 | 1 140 207 | 1 171 020 | 1 202 305 | 1 234 057 | 1 266 272 | 1 298 943 |
| 13 | 987 739 | 1 017 445 | 1 047 672 | 1 078 414 | 1 109 668 | 1 141 428 | 1 173 689 | 1 206 445 | 1 239 689 |
| 14 | 934 015 | 964 051 | 994 645 | 1 025 791 | 1 057 483 | 1 089 715 | 1 122 481 | 1 155 772 | 1 189 582 |
| 15 | 887 626 | 917 992 | 948 952 | 980 500 | 1 012 628 | 1 045 329 | 1 078 594 | 1 112 415 | 1 146 783 |
| 16 | 847 195 | 877 891 | 909 217 | 941 165 | 973 725 | 1 006 890 | 1 040 650 | 1 074 993 | 1 109 910 |
| 17 | 811 672 | 842 697 | 874 386 | 906 731 | 939 721 | 973 345 | 1 007 593 | 1 042 451 | 1 077 908 |
| 18 | 780 237 | 811 590 | 843 641 | 876 380 | 909 795 | 943 874 | 978 603 | 1 013 968 | 1 049 955 |
| 19 | 752 244 | 783 923 | 816 333 | 849 463 | 883 300 | 917 827 | 953 031 | 988 895 | 1 025 402 |
| 20 | 727 176 | 759 179 | 791 947 | 825 465 | **859 717** | 894 688 | 930 359 | 966 712 | 1 003 728 |

- The repayment period used in the calculation is equal to 20 years. Based on the calculations and assumptions above, an annual debt service of HUF 859,717 will be applied for each ten million HUF of JESSICA loan financing.

- In case of projects (either implemented by local authorities / government bodies or private investors) it is assumed that JESSICA loans will finance 50% of total project investment.

- For the sake of calculation simplicity/transparency, loan repayment starts in the first year after the disbursement of JESSICA funds (no interest or charges are assumed for this year).

- Due to yet unknown organisational scheme of the single projects, impact of tax shield (on JESSICA loan interest) is not taken into account.

- It was assumed that the projects will start in 2012 with a one year construction period, and the first loan repayment will take place in the first year of operation in 2013.

- At the calculation of the rentable area needed to cover the cash income required to repay JESSICA funds, possible vacancy rates have not been taken into consideration, hence we assumed 100% occupancy at the determination of the rentable area needed.

It is important to note that the possible error margin is considerably high because of the scarcity of detailed operating data, assumptions and business plans.

## 7.3. Results of the financial assessment of the projects

For the sake of comparison single project assessments were structured as follows:

1. **Main calculation assumptions and parameters** – summary of project-related data obtained via questionnaires.

2. **Financing scenario** – estimation of JESSICA-financed share in total investment.

3. Calculation of the **minimum level of cash** to be generated during the operation in order for the project to be able to repay the project loans. Please note that this calculation excludes any operational costs.

4. **List of future documentation** and financial information necessary to qualify for JESSICA requirements and to facilitate a detailed financial analysis.

For the project at which more detailed financial information is available the above analysis is supplemented with the following sections:

5. **Non-discounted operating results (w/o financing costs)** – charts and tables presenting pure operating revenues, expenditures and results of particular projects. These values allow for preliminary estimations of their potential for loan reimbursements, as they present the expected amount of cash generated, which might be utilised to service the loan.

6. **Operating performance estimations –** expected NPV and IRR of the particular project.

7. **Cash-flow summary** – brief summary of operating, investment and financial cash-flows, taking into account the loan repayment obligations. Presentation of total project cash flows separately for each year and cumulatively.

8. **Summary of results.**

## 7.4. Summary of the projects included in the scope of preliminary financial assessment

The general financial information regarding the above analysed projects is summarised below:

| Projects | Total investment budget (THUF) | Possible JESSICA investment (THUF)* | Possible forms of the JESSICA finance |
|---|---|---|---|
| Old Glass Factory, Salgótarján | 1 253 000 | 1 000 000 – 2 000 000 | Loan/Equity** |
| Market Hall Development in Salgótarján | 1 500 000 | 750 000 | Loan/Equity |
| Market Hall Development in Nyíregyháza | 1 500 000 | 750 000 | Loan/Equity |
| Development of Barrack Sites in Nyíregyháza | 10 596 200 | 5 298 100 | Loan/Equity |
| Intermodal Centre, Kecskemét | 17 000 000 | 8 500 000 | Loan/Equity |
| Total | **31 849 200** | **16 298 100 - 17 298 100** | |

*Using the assumption that 50% of the projects' funding is from JESSICA since no other information was available except at the Old Glass Factory project in Salgótarján

**No preference over loan or equity financing need was indicated by the project owners. In general we consider a project to be financed by equity if the underlying project company has high value assets and they keep their value or even appreciate and the project company shares can be freely sold thus securing a return for the shareholder (e.g. the UDF). On the other hand a project will only be financed by loan up to the level it can generate sufficient cash for debt servicing. Based on our preliminary assessment an equity financing part will have to examined in case of the Kecskemét intermodal centre as it does not seem to generate sufficient cash for loan repayment at the assumed 50 % leverage rate.

The total construction budget for the five projects under review amounts to HUF 31.8 billion (mEUR 118). Assuming a 50% JESSICA funding requirement - since no such information was available from the project owners (except at the Old Glass Factory project in Salgótarján) -, HUF 16-17 million financing could be used from JESSICA sources for these projects. Either loan or equity financing would be required by the project owners in most of the cases.

We have emphasised the difficulties of the financial analysis in the above chapters, and we have also listed the main documents that are needed for a comprehensive analysis in order to conclude on the "JESSICAbility" of these projects (Section: 1.4.5).

We have assumed during the financial analysis loan financing structures. We emphasise that equity finance is also possible for the projects, however without more detailed financial plans and more advanced financing structures at this stage no conclusion can be drawn whether loan or equity finance is more suitable.

Since most of these projects are in a very preliminary phase and some are under consideration as 'ideas' or projects that need to be restarted, it is inevitable – as a key criteria – that the documentary background for transparency on the project feasibility and financial performance must be available to attract any future investors. Taking into consideration the timeframe remained in the current programming period, the key documents that should be prepared and advancement that should be realised as soon as possible to be ready for JESSICA are:

- *Preparation of proper business plan reflecting the revenue and cash-flow generating ability,*
- *Preparation of feasibility studies to reflect the socio-economic benefits and the appropriateness of the scope of the project for JESSICA goals (urban development, transportation),*
- *Well-advanced project management schedules and actions,*
- *Some available financing should be organised on top of JESSICA finance,*
- *Outline of the legal and corporate structure of the project frame.*

Due to the preliminary phase of the projects and due to the very limited information received it is not yet possible to stipulate whether the project managers are technically at a level that would ensure the preparation of the above listed documents. We assume in certain cases technical assistance might be useful to fulfil the documentary requirements of JESSICA and the UDF to be able to take an appropriate decision about the financing.

## 7.5. Estimation of a potential UDF size

To estimate a potential UDF size we have taken into consideration the projects listed in the Annex and analysed in this report.

| Project name | Total investment budget (HUF billion) | Possible JESSICA investment (HUF billion) | Possible forms of the JESSICA finance |
|---|---|---|---|
| Intermodal Centre Kaposvár | 30,0 | 15,0 | Loan/Equity |
| Multimodal Centre Debrecen | 20,0 | 10,0 | Loan/Equity |
| Intermodal Centre Kecskemét | 17,0 | 8,5 | Loan/Equity |
| Development of old barrack sites Nyíregyháza | 10,6 | 5,3 | Loan/Equity |
| Intermodal Centre Miskolc | 10,1* | 5,0 | Loan/Equity |
| Intermodal Public Transportation Centre Pécs | 10,1* | 5,0 | Loan/Equity |
| Regional Public Transportation Székesfehérvár | 10,0 | 5,0 | Loan/Equity |
| Inner-city rehabilitation in Miskolc | 5,5 | 2,8 | Loan/Equity |
| Development of sewage system Miskolc | 3,9 | 2,0 | Loan/Equity |
| Market Hall development Nyíregyháza | 1,5 | 0,8 | Loan/Equity |
| Market Hall development Salgótraján | 1,5 | 0,8 | Loan/Equity |
| Old Glass factory Salgótarján | 1,2 | 2,0 | Loan/Equity |
| **Total** | **121,4** | **62,2** | |

* No investment budget was available; therefore we used the average of the other available JESSICA investment projects' budget as included in this table.

The total project value identified in the Hungarian market amounts to HUF 121,4 billion (EUR 450 million). Assuming that 50% of the investment budget could be financed from JESSICA sources and extrapolating the average project size to the projects for which no construction budget was available we estimate that HUF 62,2 billion (EUR 225 million) JESSICA funding could be invested once the projects will be ready for JESSICA financing.

The background and the maturity level of the projects are different. There are awarded projects but not yet contracted with the MA in the case of Inner-city rehabilitation in Miskolc, Development of sewage system in Miskolc because of the lack of own contribution. Some projects were stopped because the private partner had financial difficulties in the case of the two market hall project in Nyíregyháza and Salgótarján. The intermodal centers are under preparation with accordance of the Transport OP.

The issue of state aid is an important one. Where JESSICA investments are combined with other public funds including other European grant funds, then this will need to be analysed so as to ensure that this is not incompatible with state aid rules. In particular, the private investor/project promoter should receive no more than a 'fair rate of return' on their investment. These fair rates of return are determined with reference to the Hungarian economic and financial market place and it is for the UDF Manager to ensure that UDF investments are in line with State Aid regulations, including with regards to aid intensity.

According to the information received from the project owners, all of the projects below could potentially be financed by the end of 2015.

# 8. JESSICA Structures

Should the Hungarian National Development Agency wish to introduce JESSICA financial engineering instruments in Hungary, then there are a number of issues to consider. These include additionality (i.e. is it or is it not simply going to replicate existing structures), value for money, and the existence of appropriate projects for investment which are covered in other areas of this study. It is also important at an early stage to consider issues such as the framework within which upstream contractual relationships between the UDF and the MA might operate. Such considerations play a significant part in determining the most appropriate legal structure for a UDF in any particular area, alongside the existing regulatory and legal environment.

Generally, there is considerable flexibility as to how JESSICA instruments may be structured. The main variables to consider are summarised below, and the following sections analyse the advantages and challenges of each in the context of implementing JESSICA in Hungary:

- With or without a HF?
- UDFs as a separate legal entity or as a block of finance within an existing institution?
- What amount of Structural Funds should be allocated to UDFs, and from which OPs?
- How many UDFs should there be?
- If there are multiple UDFs, should these be structured by region or sector?
- What projects may JESSICA be likely to fund; and what are the implications of this in terms of how JESSICA delivery should be structured?

<u>HFs</u>

A standard approach is the creation of a HF, which may be managed by the EIB or other accepted financial institution. To date, the EIB acts as the HF manager of 18 JESSICA HFs across Europe, whilst in Estonia, KredEx acts as the HF Manager. The HF includes the ERDF drawn down from the OP financed by European Structural Funds, as well as committed national match funding at the specified intervention rate.

The HF then transfers money into one or more UDFs which in turn invest in projects which are included in an IPSUD. There are a number of benefits that are widely accepted to be associated with the use of HFs. These include:

(i) **Defrayal and n+2** - Under the terms of EU legislation, HFs represent 'eligible or qualifying spend' and can therefore secure investment in an area prior to an eligible UDF or project being identified that requires JESSICA investment. This has been a key attraction to some Managing Authorities as by establishing a HF ERDF counts as defrayed, it can therefore assist in meeting n+2 targets. It should be noted however, that funds are still required to be transferred to UDFs and invested in sustainable urban development projects by the end of 2015 to meet eligibility requirements.

(ii) **Flexibility** – Through using a HF, the MA has more time to agree and develop its strategy for the development and implementation of UDFs, including key considerations as to the number or type of UDFs to be funded. Without a HF these decisions must be made upfront.

(iii) **Income** - Funding is drawn down at the HF level as a cash transfer, therefore enabling interest to accrue within the HF from the point of draw down, which increases the amount of money available for investment in the region. Although this factor was of greater significance during higher interest rate periods, it is still a consideration; EUR40m at 0.5% held for a year could provide an additional EUR200k.

(iv) **Credibility** – The establishment of a HF demonstrates to the private sector that funds are in place for project development thus providing greater clarity and certainty, a stronger field of UDFs coming forward to the fund, a more robust pipeline of projects seeking funding through JESSICA, and potentially greater interest from the private sector in investing finance at the HF or UDF level.

(v) **Expertise** - The use of a HF provides for a dedicated expert interim Fund manager function that is tasked with overseeing the deployment of JESSICA funds.

(vi) **Independence** – Through involving an independent third party in the development of governance structures, investment criteria and the selection of UDFs, the use of a HF can assist in removing political considerations from decision making processes.

(vii) **Balance Sheet Treatment** – Whilst dependent upon national and international accounting regulations, in some instances, the use of a HF may secure an 'off balance-sheet' opinion for the MA at the point of draw down of ERDF and the placement of match funding within the HF. If permitted, this can be particularly important if the HF includes debt. In any instance, Balance Sheet treatment for the UDFs receiving funding from the HF would need to be separately considered and reviewed at the point that money is transferred to UDFs and when the UDFs themselves make investments in projects.

The EIB operates on a non-profit basis, and currently acts as a HF on a cost recovery basis for Managing Authorities. If the EIB were to act as the HF manager, this presents the following possible additional benefits:

(viii) **Timing of set up**– A template HF agreement is now established and has been used with a number of Managing Authorities. This, alongside the fact that no formal procurement is required if the EIB is used as HF manager, means that a HF can be established relatively quickly (potentially in the region of three months, approvals permitting.)

(ix) **Expertise** – HFs provided by the EIB provide access to lessons learned through the establishment and operation of other HFs and financial engineering instruments. E.g. If the EIB is managing the UDF selection process, it will be able to use the standardised process tailored for JESSICA and accepted by the EC.

(x) **Relationship with the Commission** – If a HF is provided by the EIB, it allows the MA to take advantage of the close EIB relationship with both DG Regio and DG Competition within the EC. These links may be critical in securing answers to queries and facilitating the development JESSICA funds.

The HF manager will charge a fee for the provision of services. This is usually at a maximum of 2% per annum of funds under management. These services would include key activities that would be required in any case in setting up a JESSICA fund. Without a HF these activities would either be carried out in-house by the MA if there is sufficient capacity and expertise, or otherwise with the assistance of external consultants. Clarity would be needed as to who would lead in the provision of services, which costs were included or excluded from the HF Management fee, how the MA is to be represented through the governance arrangements, and what other, if any, additional resource or support would be required (eg. in house or specialist advisors). The activities of the HF would be likely to include:

- Establishing HF governance arrangements, including the establishment of an independent Investment Board;
- Agreeing and implementing the overall investment strategy for the HF and the investment criteria for investing money from the HF to UDFs;
- Designing the procurement process and administering a call for UDFs to obtain UDF applications/offers ;
- Review of UDF applications/offers ,assessment of UDF business plans and recommendation as regards UDF selection to the Investment Board;
- Credit checks and due diligence on UDFs, including providing assurance on appropriate UDF fund management arrangements and project delivery;
- Depending on the capacity and experience of UDFs the activities of a HF may also need to allow for the provision of advisory services to UDFs in preparing, implementing and managing investment; as well as
- Ongoing monitoring and controlling of UDFs activities (i.a. through regular verification of qualitative and quantitative reports submitted by the latter).

In view of these factors, and particularly given that multiple UDFs are likely to be established in Hungary if implementation of the JESSICA initiative in Hungary is taken forward, the Hungarian National Development Agency may wish to seek to make use of a HF.

UDFs

The JESSICA regulations provide for two main options with regards the set up and operations of UDFs; as a separate legal entity or as a block of finance within a financial institution. Whilst advice on national regulations and legislation would need to be taken, according to the European regulations this could normally include the following variants:

- **Option 1: Completely new stand-alone entities** – this provides a bespoke investment vehicle that can be structured specifically to achieve local/ regional objectives within the context of the relevant regulations. It may be most appropriate when a single UDF structure is being developed, which requires a minimum amount of resources to be effective. Setting up a new entity is likely to take more time than having a separate block of finance within a financial institution for example, but may present other advantages, such as being more likely to attract additional private financing.
- Creation of a new entity has been suggested as a means to provide a direct route for a MA to take a leading role in the development of the UDF and the direction of the JESSICA mechanism if they take a majority stake in a new UDF (although both balance sheet impacts and approval processes would be relevant here). However, where new standalone entities are established, they may not be able to take advantage of the efficiencies or synergies that may be created where the UDF is managed by an organisation which has other similar funds or provides other financing, giving access skills, experience and capacity elsewhere within the organisation.

- **Option 2: Existing legal entities adapted to fulfil the function of a UDF** - in order to act as a UDF it is likely that an existing vehicle would need to review and potentially amend/ restructure its current constitution, objectives and functions. Any change to the existing structures would also require approvals, and would need to be carefully considered in terms of any impact on balance sheet treatment for the owners of the vehicle.

- **Option 3: Separate subsidiaries** set up by existing vehicles or by financial institutions to fulfil the function of a UDF as an addition to current functions. This may be an attractive option for private sector led vehicles, which may not need the same approvals processes as the public sector.

- **Option 4: Block of finance within a financial institution;** Under this route, it is envisaged that an existing bank or property/ regeneration fund would manage JESSICA money and play the role of the UDF in making investments in projects. The advantages of this are that existing infrastructure and funds management expertise would be present within these institutions, and hence both set up costs and timescales may be decreased.

The process of selection and operation of a UDF is likely to give rise to questions of State Aid, and therefore the MA (and/or the HF manager) would need to seek advice and guidance from the EC and legal advisors in relation to these issues.

There are no specific requirements as to the legal structure to be adopted by UDFs within European regulations, although options may be limited within Hungarian law. Important considerations are that the funds are safe and that the structure adopted is credible and straightforward. Successful UDFs are likely to be those where operating policies and procedures are clear and well documented, particularly with regards to the scope and limits of decision making authority.

The main legal structures available to the UDF where established as separate legal entity are: a company limited by guarantee, a limited partnership or a limited liability partnership. The optimal structure is driven by a number of key factors - namely, tax efficiency and robust governance and control mechanisms. Limited partnership and limited liability partnerships can offer certain tax efficiencies as they are generally invisible for corporation tax purposes, although this may depend on the Hungarian legal environment. Profits are often treated as being received directly by the partners in such partnerships and this can be particularly attractive to institutional investors who themselves will participate through fund structures. The Limited Partnership structure is the most common structure for investment funds of this type but in Hungary this needs to be considered further in the light of the other issues impacting structure (for example any special purpose vehicle ownership).

Single or multiple UDFs

There is no specification as to the number or type of UDFs that should be set up within a JESSICA initiative. The Commission's COCOF note (DOC COCOF/07/0018/01-EN FINAL) suggests that *'Where possible, more than one financial engineering instrument should be selected, with a view to producing the best possible leverage effects for scarce public resources contributed by the OP, and in order to involve any available energy, resources and expertise of good quality from the private sector, and to achieve the investment and development objectives of the OP.'*

Some Managing Authorities have decided to take forward a single UDF structure as a mechanism to enable economies of scale, maximise the potential for leveraging private sector investment through a single focused fund, and provide a focused single long term fund that can invest across the whole state/region. However, a single fund for a large geographical area can create challenges as there may be strong sub-regional differences both in terms of markets and political considerations which would benefit from more localised structures, and there are existing vehicles which could support the development of UDFs in different regions.

Introducing multiple funds needs to be balanced against the benefits of a simple structure in terms of ease of set up, defrayal of expenditure, and size of the fund(s). For practical reasons, a single or potential two UDF structure which focuses on providing loans/equity and/or guarantees to a small portfolio of larger projects, can sometimes offer the best way of managing the risks inherent in establishing a UDF, including that of finding a longer project pipeline, state aid considerations, and set up costs.

Typical considerations are whether a multiple UDF approach should be along spatial/geographical, or sectoral lines. A spatial approach may provide opportunities for better integrated investment to meet the needs of an area, whereby a sectoral/ industry themed UDF could be more specialised in terms of the investment products offered and may also be more attractive to private sector investors (for example specialist investors in renewable energy). A further factor to consider is the eventual product adopted by the UDF(s) - there may be benefits to specialist funds focusing on, for example, provision of loans, equity, or guarantees. Which OPs funds are drawn may also impact on which geographical regions or sectors a UDF might be able to cover.

In order to benefit from the potential economies of scale, and to minimise risks through a portfolio approach, the optimum position may be for each UDF to invest in a number of projects. However, there is nothing to prevent a UDF, either initially or in the long term, being established to invest in a single project. This may be the case if UDFs are small in value, or if projects require a significant amount of, or all of, the investment funds available to the UDF.

It is difficult to pre-judge the outcome of this debate at this time, as the best structure for UDFs should be linked to amount allocated to JESSICA and the number and type of projects likely to come forward for funding across the country and/or specific regions of Hungary.

Steps and indicative timetable for the implementation of JESSICA in Hungary with EIB as the HF manager could be the following:

| **Structure with HF** | |
|---|---|
| 2 months | Negotiations and signing of FA between EIB and MA |
| 3 months* | Preparations for launching of Call for Expression of Interest (market analysis, promotion activities etc) |
| 3 months | Call for Expression of Interest for the selection of UDF manager(s) |
| 2-3 months | Operational Agreement negotiations with selected potential UDF managers |
| | *Signing Operational Agreement* |
| 1 month | Announcement of the call for project applications |
| | Investments in projects by UDFs |

* this can be shortened if work consists of only tailoring EIB's Call for EoI template, in case the NDA would already know (also on the basis of the Study) which UDF business model they would implement (geographical/sector split; 1 or more UDFs).

In case the NDA decides not to establish a HF structure, but selects a UDF directly, the NDA will be required to go through the whole process of preparing and concluding the respective documentation (selection process, contract with UDF etc.). EIB can however assist NDA through the provision of Technical Assistance.

# Conclusions and analysis

In this report a number of topics were examined, and the following conclusions can be drawn:

**In the current programming period (2007 – 2013) the following axes of priorities / operations are relevant for JESSICA** in the 3 relevant OPs:

| **Operational Programme** | **Axes of priority** | **Measures** |
|---|---|---|
| Transport OP | Linking up different modes of transport and improving the intermodality and the transport infrastructure of economic centres | |
| | Improving urban and suburban public transport in cities and the surrounding areas | |
| North Great Plain OP | Regional economic development | Development of information and innovation services |
| | Tourism development | Development of tourism products and attractions |
| | | Development of commercial accommodations |
| | Improving transport conditions | Development of communal transport systems |
| | Urban and regional development | *Urban development* |
| North Hungary OP | Creation of a competitive local economy | Development of industrial areas and industrial parks with regional significance |
| | Strengthening tourist potential | Sustainable development of regional tourist attractions and products: Sustainable development of regional tourist attractions, products, and thematic networks based on the |

| | | |
|---|---|---|
| | | region's peculiar values, basically natural and cultural heritage. |
| | | Developing commercial accommodations and their services |
| | | Innovative service centre to promote research and investments in tourism |
| | Development of settlements | Integrated, action area based regeneration of deteriorated urban areas (e.g., colonies) and estates threatened by degradation (e.g., residential areas containing prefabricated buildings) |
| | | Development of central settlements of micro-regions |
| | Development of human community infrastructure | Modernising health care services |

**The general conclusions from the IUDS analysis** are the following:

- urban development programmes of cities are focused on Inner-city rehabilitation, brownfield revitalisation, development of public infrastructure (utilities, traffic, transport, institutions) and some greenfield projects (industrial, commercial or residential).
- The timeframe of IUDSs cover mainly the current programming period (2007-2013) with detailed and prepared projects. As a result, in some cities most of the planned revitalisation projects have already received funds, or are prepared/waiting on the next "Urban rehabilitation" ROP tender due in the spring 2012.
- The involvement of private money into urban development projects became difficult after the financial crisis, some planned projects were delayed or cancelled because of the financial problems of the private side.
- For this programming period some remaining urban projects in the municipal pipeline (1) are prepared for the next ROP tender, (2) were stopped because the private partner had financial difficulties, or (3) not eligible for ROP criteria or (4) they are on the preliminary phase and do not mature enough to start with the implementation under the JESSICA mechanism.
- In the smaller-scale cities the urban development ambitions were limited, there was a lack of ideas and/or local capacities to prepare eligible urban, revenue generating projects.
- Based on our experience and analysis of IUDSs we suggest that technical

assistance might be needed at project/city level or at UDF level, how to configure projects to create revenue where this possibly exists, and how to deal with private partners and interests.

One objective of the study was to identify how **JESSICA financial scheme can play a role in the** implementation of projects in accordance of the different Hungarian OPs. The result of the study can be summarised as follows:

- Several project concepts and types have been identified that meet JESSICA requirements and have the potential to provide the necessary results. There is a **potential project-flow that can provide the necessary supply for JESSICA** in the next period.

- In the current budget of the Regional OPs there are some funds dedicated for JESSICA (2 billion HUF for North Great Plain, and 1 billion HUF for North Hungary). There is an additional source in the Transport OP directed to JESSICA; the amount is not defined yet.

- Most of the **projects can be considered as not yet mature, in most of the cases** feasibility studies, financial plans are under preparation or not started yet. There is a real need to support the preparation of the development plan of the projects by the MA and/or UDF.

- The difficult financial situation of local municipalities caused by the financial crisis, indebtedness, and the narrowing possibilities for non-repayable grants will turn the focus of settlements to alternative sources to finance their developments. In the same time private developers (involved into PPP-type of projects) are looking for available financial sources since private bank loans are difficult to receive. **There is a need for alternative financial sources that JESSICA instrument could cover**.

- Current laws and regulations in relation to public private partnerships and municipality financing are changing. Depending on the nature of the changes, it is possible that the use of JESSICA funds may present opportunities for off balance financing (for example when participating in a PPP scheme). Whether this is feasible will depend on the national regulations at the time, as well as international accounting standards, and the share the municipality (or project owner) has in the project company.

- JESSICA could potential be used for private entities to give loan/equity. This might give more possibilities to implement JESSICA as private investors might have better prepared projects with revenue generating aspects.

- In the next programming period 2014 - 2020 due the reduced role of non-refundable grants there will be a larger space for alternative financial schemes that can help to implement some parts, elements of the potential projects, which wouldn't be eligible under the grant programmes. JESSICA initiative could solve the problem of the above mentioned development projects, thus the introduction of JESSICA in Hungary would be welcomed by these projects.

- At the same time it must be seen clearly that until EU grants are available with low own resource proportion for urban regeneration, those projects which fit into the requirements of the grant, will not be motivated to use the JESSICA sources, only those projects will use it, which can not be implemented in the frame of the EU programmes. Therefore projects need restructuring, and will need at least some revenue generating aspects.

- Key issues of the JESSICA financial instrument, dealing with private partners, will be the short time period of decision makings (private investors calculate usually with a limited length of 3-4 month till a decision). Transparency is a major JESSICA requirement during a project development period, and private sector investors will need to adapt to these rules when participating in JESSICA (for that part which is funded by ERDF).

**Proposed preparation of JESSICA for the next programming period**

The importance of JESSICA mechanism in the financing of urban development will grow in the next programming period. Analysing the urban demand – both municipal and private – we suggest the extension the criteria system of JESSICA in three dimensions:

- **Geographical extension** to cover the urban demand nationwide. The urban areas suffer the similar problems in every region, independent from the economic development of the certain regions.

- **Extension of eligible project types** to give higher priority to brownfield developments since it is a common urban problem is Hungarian cities. In the same time greenfield developments have an important role in the local economies to create new workplaces, and modern infrastructure in the outer parts of cities. Infrastructural developments alone could have a bigger role in the preparation of urban developments, we suggest it as an independent eligible action for applicants.

- The general **extension of the group of eligible applicants** to have the possibility to involve a broader scale of private partners in urban developments projects. The current criteria prefer SMEs and municipality or state owner companies, while national or international developers or end-users are closed out.

In addition, during the preparation of the study, we experienced a **need for promotion of the JESSICA instrument and the need for training and education** to municipalities, OPs, public sector project sponsors on how to configure projects to create revenue where this possibly exists and education to the private sector regarding new opportunities for investment for them created by public-private partnerships on projects including public sector investment.

# 9. Annex

## Project sheets

This chapter includes projects or project proposals suitable as possible investment opportunities for a JESSICA UDF, under the different relevant Regional and Sectoral OPs. This section presents project proposals of the MAs, regional and local public bodies, and private investors.

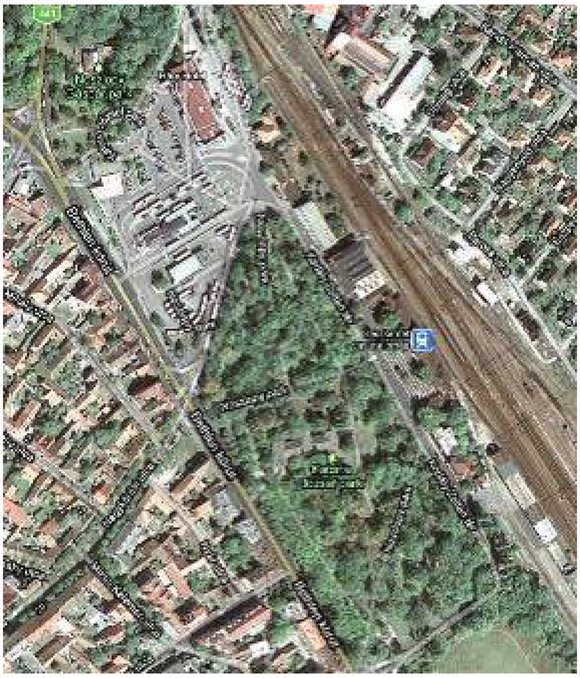
## 9.1. Potential JESSICA projects to be part funded by Transport OP

9.1.1.

| | |
|---|---|
| **Name of the project** | Multimodal Centre |
| **Location** | Debrecen |
| **Anticipated project budget** | 20 billion HUF |
| **Included in IUDS** | Yes |
| **Eligibility for Transport OP criteria** | The project has been developed in accordance with the OP criteria |
| **Eligibility in regards to JESSICA financing** | Urban development, local transportation development, included in the local IUDS and AP, revenue generating |
| **Project description** | The new Community Transport Multimodal Logistics Centre will serve local and long-haul transport (about 100 thousand passengers annual) in the city of Debrecen, next to the existing railway station.<br><br>The 50,000m² facility will be connected to the railway station and will have underground parking (for 300 cars), a bus station for local lines on the ground floor and a bus station for long-haul coaches on the first floor. The Southern wing of the centre will include 100m² retail area and office building. The total value of the project is around 20 billion HUF.<br><br>The centre of the new station is planned on the current arrival site, while the post office site will be developed into a 100 thousand sqm shopping centre and office building. The planned investment cost is 20 billion. Technical plans are expected to be finished by August.<br><br> |
| **Anticipated start date** | 2012-2014 |
| **Revenue generating component** | Commercial, retail and office |
| **External economic impact** | Strengthening the effectiveness of local and regional public transportation |
| **Project maturity** | Concept plan, feasibility study under preparation |

Plan: debrecen.hu

9.1.2.

| | |
|---|---|
| **Name of the project** | Intermodal Centre |
| **Location** | Kecskemét |
| **Anticipated project budget** | 17 billion HUF |
| **Included in IUDS** | Yes |
| **Eligibility in regard to Transport OP criteria** | The project has been developed in accordance with the OP criteria |
| **Eligibility in regard to JESSICA financing** | Urban transport infrastructure development with commercial and public uses |
| **Project description** | The new centre will include a new bus station, railway station, P+R car parking (for 500 cars), pedestrian overpass and commercial and service units. A preliminary feasibility study proposal was accepted by the municipality in June 2011, a detailed feasibility study by the KÖZLEKEDÉS-TRANSMAN-KÖZTI-KÖZUTAS engineering consortium is currently ongoing. The preparation is granted by the Transport OP.<br> |
| **Anticipated start date** | 2012- |
| **Revenue generating component** | rental price income from retail and service units |
| **External economic impact** | strengthening the effectiveness of local and regional public transportation, |
| **Project maturity** | Feasibility study is currently ongoing. According to the last planners workshop on the 21st of September, there are some technical questions (development program with or without cargo, post office, police station, which buildings to demolish, road connection alternatives) and there are some legal concerns |

| | |
|---|---|
| | (involving Hungarian Post and some private landlords in the planning procedure). The readiness of the feasibility study is low and there are still some conceptual questions to solve, so the development plan could be influenced by JESSICA in this phase. |

Map: GoogleMaps

9.1.3.

| | |
|---|---|
| **Name of the project** | Miskolc Intermodal Centre |
| **Location** | Miskolc |
| **Anticipated project budget** | not available |
| **Included in IUDS** | Yes |
| **Eligibility for Transport OP criteria** | The project has been developed in accordance with the OP criteria |
| **Eligibility in regards to JESSICA financing** | urban transport infrastructure development with commercial and public uses |
| **Project description** | The local municipality is preparing a multimodal transport and logistic centre in the northern part of the city, in the old Gömör railway station. The centre will include the terminal station of the local train, regional railway, bus and coaches. Feasibility study is under preparation (as a priority project), the municipality started to modify the relevant regulation plan between Ady u., Szeles u., Állomás u., Zsolcai kapu.  |
| **Anticipated construction start date** | 2012- |
| **Revenue generating component** | rental price income from commercial properties, extra income from ticket sales |
| **External economic impact** | strengthening the effectiveness of local and regional public transportation, |
| **Project maturity** | feasibility study is under procedure |

Map: GoogleMaps

9.1.4.

| | |
|---|---|
| **Name of the project** | Regional Public Transportation Centre |
| **Location** | Székesfehérvár |
| **Anticipated project budget** | ~10 billion HUF |
| **Included in IUDS** | yes |
| **Eligibility for Transport OP criteria** | The project has been developed in accordance with the OP criteria |
| **Eligibility in regards to JESSICA financing** | urban transport infrastructure development with commercial and public uses |
| **Project description** | The new centre will be placed between the existing buildings of the post office and the old railway station. The centre will include the local bus terminal. The new development will allow rapid access to Budapest from the city and the surrounding area. The concept plan has been collected, the feasibility study is under preparation and scheduled delivery is the end of the year. The preparation is granted by the Transport OP.<br> |
| **Anticipated construction start date** | 2012- |
| **Revenue generating component** | rental price income from commercial properties, extra income from ticket sales |
| **External economic impact** | strengthening the effectiveness of local and regional public transportation, |
| **Project maturity** | feasibility study is underway |

Map: GoogleMaps

9.1.5.

| | |
|---|---|
| **Name of the project** | Intermodal Public Transportation Centre, Pécs |
| **Location** | Pécs |
| **Anticipated project budget** | not available |
| **Included in IUDS** | Yes |
| **Eligibility for Transport OP criteria** | The project has been developed in accordance with the OP criteria |
| **Eligibility in regards to JESSICA financing** | urban transport infrastructure development with commercial and public uses |
| **Project description** | The new intermodal centre development project includes: new bus terminal (local and regional), relocation of railway technical facilities to an outer part of the city, new passenger hall, P+R parking. Decontamination and preparation of the old railway area for sale or further development (involving private partners). The preparation is granted by the Transport OP.  |
| **Anticipated start date** | 2012- |
| **Revenue generating component** | rental price income from commercial properties, income from development sites |
| **External economic impact** | strengthening the effectiveness of local and regional public transportation, |
| **Project maturity** | feasibility study is underway |

Map: GoogleMaps

9.1.6.

| Name of the project | Intermodal Centre, Eger |
| --- | --- |
| **Location** | Eger |
| **Anticipated project budget** | not available |
| **Included in IUDS** | Yes |
| **Eligibility for Transport OP criteria** | The project has been developed in accordance with the OP criteria |
| **Eligibility in regards to JESSICA financing** | urban transport infrastructure development with commercial and public uses |
| **Project description** | In the development program of the project the local bus station will be rebuilt in the existing railway station. The intermodal centre will include retail and service facilities. The concept plan was created in 2008, a detailed feasibility study is under preparation and the scheduled delivery is the beginning of 2012. The preparation is granted by the Transport OP. <br> |
| **Anticipated construction start date** | 2012- |
| **Revenue generating component** | rental price income from commercial properties, sales of development sites |
| **External economic impact** | strengthening the effectiveness of local and regional public transportation, |
| **Project maturity** | feasibility study is underway |

Plan: Zöldi Péter

9.1.7.

| | |
|---|---|
| **Name of the project** | Intermodal Centre, Kaposvár |
| **Location** | Kaposvár |
| **Anticipated project budget** | 30 billion HUF |
| **Included in IUDS** | Yes |
| **Eligibility for Transport OP criteria** | The project has been developed in accordance with the OP criteria |
| **Eligibility in regards to JESSICA financing** | urban transport infrastructure development with commercial and public uses |
| **Project description** | Development of the existing railway station, a new bus terminal, P+R parking, railway underpass and road development. Rehabilitation of an old railway site. The feasibility study is under preparation, delivery is scheduled for Q4 2011. The preparation is granted by the Transport OP.  |
| **Anticipated construction start date** | 2012- |
| **Revenue generating component** | rental price income from commercial properties, sales of development sites |
| **External economic impact** | strengthening the effectiveness of local and regional public transportation, |
| **Project maturity** | feasibility study is underway |

Map: GoogleMaps

## 9.2. Potential JESSICA projects in the North Hungary Region

9.2.1.

| | |
|---|---|
| **Name of the project** | Development of sewage system in Miskolc |
| **Location** | Miskolc |
| **Anticipated project budget** | 3,9 billion HUF |
| **Included in IUDS** | Yes |
| **Eligibility for ROP criteria** | Eligible only if integrated as part of other eligible urban development |
| **Eligibility in regards to JESSICA financing** | Urban infrastructure development, included in the IUDS, revenue generating component |
| **Project description** | The local sewage system in some areas of the city is not built-up. The planned development will provide sewage services in new areas, with more than 900 new service connected properties, 20 km of new pipeline, 2 new pump stations and the redevelopment of 1 existing pump station. The project host is the Municipality of the City of Miskolc and the Miskolc Water Works Company. The project will be financed by grants (2,9 billion HUF) and by equity or loans (~1 billion HUF). |
| **Anticipated construction start date** | 2012-2014 |
| **Revenue generating component** | Access charge, service charge |
| **External economic impact** | Extension of urban services |
| **Project maturity** | The planned action is included in the IUDS of the city, technical planning will be finalised in Q2 2012. |

9.2.2.

| | |
|---|---|
| **Name of the project** | Inner-city rehabilitation in Miskolc |
| **Location** | Miskolc |
| **Anticipated project budget** | 5,5 billion HUF |
| **Included in IUDS** | Yes |
| **Eligibility for ROP criteria** | The programme is supported by the ROP urban rehabilitation scheme (contract signed), and is eligible for the criteria |
| **Eligibility in regards to JESSICA financing** | Urban development, included in the IUDS, revenue generating component. |
| **Project description** | Municipality of Miskolc has started the inner-city rehabilitation programme, including the renewal of retail, service units and the construction of an underground parking. The project host is the local municipality, and project partners are the Miskolc Property Management Company and Miskolc Régió Park (both are owned by the municipality), two local churches and a social foundation. The programme is granted by the ROP, the project is well prepared. The total cost of the programme is 5,5 billion HUF, the project cost plans to involve loans or equity (about 0,5 billion HUF). |
| **Anticipated construction start date** | 2011- |
| **Revenue generating component** | parking fees |
| **External economic impact** | Development of the local retail and service network, the new parking facility enables easy access to the inner-city area and increases the prestige and price of properties. |
| **Project maturity** | The project is mature, granted by ROP, plans and permits are available. |

9.2.3.

| | |
|---|---|
| **Name of the project** | Market Hall development in Salgótarján |
| **Location** | Salgótarján |
| **Anticipated project budget** | ~1,5 billion HUF |
| **Included in IUDS** | Yes |
| **Eligibility for ROP criteria** | Yes |
| **Eligibility in regards to JESSICA financing** | Urban development, included in local IUDS, revenue generating component |
| **Project description** | The project is part of the inner city area development plan. The owner of the property is the local municipality and they plan to develop a modern market hall with a wider range of retail units. The private partner is a local retail chain. The city is planning to obtain ROP grants (2011 Q4), involve private investors and the JESSICA scheme may also be an option.<br><br>The development site is owned by the municipality and has an old-fashioned, non-sustainable market hall building. Redeveloping the current hall would not be efficient, furthermore, there are some low quality smaller-scale buildings attached.<br><br>According to the current development program, the scheme will consist of:<br>- new market hall with larger-scale lettable area on the plot of the current hall,<br>- shopping and entertainment centre,<br>- car parking,<br><br>There will be parking capacity in a two-floor underground car park and also in a 5-floor building between the market hall and the shopping centre. The total scheme will include 31,000m² with 1,300 car parking places. The shopping centre will have four floors, with a net floor space of 18,400m², of which 13,800m² will be reserved for shops. This will meet the local demand for modern shopping space in the city. The market hall will provide 8,000m² of retail space out of which 1,200m² will be made available for local farmers. Combining the shopping centre with the market will ensure a permanently high number of customers.<br><br>There are some parts of the planned scheme that would be eligible for "EMOP Urban regeneration and development" grants.<br>- car parking with a maximum of 300 places,<br>- development of a market hall,<br>- business and service building with a maximum of 800m², |

| | |
|---|---|
| | - Rehabilitation of public spaces.<br> |
| **Anticipated construction start date** | 2012-2013 |
| **Revenue generating component** | Rental or sales price income from the municipality owned property |
| **External economic impact** | Strengthening local economy, SMEs, and the quality of local retail and services |
| **Project maturity** | The project is included in the current UIS and AP, technical plans are under modification, financial plans are not available yet |

Map: GoogleMaps

9.2.4.

| | |
|---|---|
| **Name of the project** | Old Glass factory in Salgótarján |
| **Location** | Salgótarján |
| **Anticipated project budget** | not available |
| **Included in IUDS** | yes |
| **Eligibility for ROP criteria** | yes, only decontamination |
| **Eligibility in regards to JESSICA financing** | Brownfield regeneration, included in the local IUDS, revenue generating actions |
| **Project description** | The old glass factory is situated next to the urban centre of the city of Salgótarján. The factory is currently closed, the owners are seeking financial support in order to re-open the factory and at the same time, they hope to regenerate (working with the local municipality) some parts of the site under various projects.<br> |
| **Anticipated construction start date** | 2013- |
| **Revenue generating component** | Brownfield regeneration will result new development sites for sale |
| **External economic impact** | The new site will attract new investors and strengthen the local employment situation and create modern urban facilities in the area. |
| **Project maturity** | The project is not mature, the local IUDS includes the area, but an AP is needed. After the agreement between the private owner and the municipality the financial and technical planning can be started. Investment tender was launched in August by the executor of the fabric, the result of the tender (awaited in the end of September) will provide a detailed development plan of the project. |

Map: GoogleMaps

9.2.5.

| | |
|---|---|
| **Name of the project** | Green Energy, Sajókaza |
| **Location** | Sajókaza |
| **Anticipated project budget** | 6,4 billion HUF |
| **Included in IUDS** | no |
| **Eligibility for ROP criteria** | no |
| **Eligibility in regards to JESSICA financing** | Brownfield development |
| **Project description** | Re-cultivation of the waste depot of Sajókaza, and creation of a modern power plant. The goal of the project is the decontamination of the polluted depot and providing energy from the waste. |
| **Anticipated construction start date** | 2011-2012 |
| **Revenue generating component** | Incomes from energy service |
| **External economic impact** | Re-cultivation of polluted area, creating new workplaces |
| **Project maturity** | The project has detailed technical and financial plans |

## 9.3. Potential JESSICA projects in the North Great Plain Region

9.3.1.

| | |
|---|---|
| **Name of the project** | Market Hall development, Nyíregyháza |
| **Location** | Nyíregyháza |
| **Anticipated project budget** | 1,5 billion HUF |
| **Included in IUDS** | Yes |
| **Eligibility for ROP criteria** | Yes |
| **Eligibility in regards to JESSICA financing** | Urban development, included in the local IUDS, revenue generating uses |
| **Project description** | The current market hall does not match the quality criteria of local demand and needs to expand; extending the social and commercial infrastructure and creating an underground car park. The owner is the facility management company of the local municipality; a private investor was involved in the project in an earlier phase, but because of the difficult economic situation they left the project.  |
| **Anticipated construction start date** | not available |
| **Revenue generating component** | Rental income from retailers and parking. |
| **External economic impact** | Strengthening the local economy, and improving the quality of the local retail and service structure. |
| **Project maturity** | The municipality has a concept plan, but it need to be modified. Cost estimation was collected in 2008. |

Map: GoogleMaps

9.3.2.

| | |
|---|---|
| **Name of the project** | Development of old barrack sites in Nyíregyháza |
| **Location** | Nyíregyháza |
| **Anticipated project budget** | 10,6 billion HUF |
| **Included in IUDS** | Yes |
| **Eligibility for ROP criteria** | yes, supported use: decontamination of brownfield area |
| **Eligibility in regards to JESSICA financing** | Urban development, included in the local IUDS, revenue generating action |
| **Project description** | The two former barrack sites (Vay and Báthory) owned by the local municipality are located in the west of the city (along the Tiszavasvári road). The two sites are next to each other and cover 40 hectares in total. The decontamination is partly finished; two new public projects were established in the sites (a civic centre and educational centres in five buildings covering 4.4 hectares). According to the city's plans, the remainder will be used for new retail and service units, an R&D centre and residential parks. The total volume of the investment (preparation and construction) is more than 10 billion HUF. The municipality is looking for private investors and financial sources.  |
| **Anticipated construction start date** | 2012- |
| **Revenue generating component** | Income from selling plots |
| **External economic impact** | Establishing modern business infrastructure, strengthening R&D activities in the city, broadening the amount of retail and service units in the neighbourhood. |
| **Project maturity** | Technical plans of the site development and cost estimations are prepared (from 2008). |

Plan: AStudio90

## 9.4. Other potential JESSICA projects in Hungary

9.4.1.

| | |
|---|---|
| **Name of the project** | Millenáris 3. |
| **Location** | Budapest |
| **Anticipated project budget** | not available |
| **Included in IUDS** | Yes |
| **Eligibility for ROP criteria** | The project is located in Budapest, not in the two regions selected by ROP for this programming period |
| **Eligibility in regards to JESSICA financing** | Urban development with possible revenue generating components, included in the local UIS |
| **Project description** | The Millenáris park and cultural centre, is a brownfield development (in two phases) in the centre of the Buda side of the capital city. The Ganz electronic factory was situated here between 1897 and 1991. After the decontamination process in the 1990s, the new public park was opened in 2001. Five buildings were reconstructed and transformed for cultural and communal purposes. The park around was completely rehabilitated with lakes and play grounds, open air programs are frequent.<br>The third part of the development is at a preliminary stage. The old industrial building contains some industrial heritage equipment that makes further development difficult. The large-scale office building along the Margit ring road is owned by the state.<br>In the IUDS of the district, cultural and public (library, conference centre, underground parking) projects were preferred usages for this site.<br> |
| **Anticipated start date** | not available |
| **Revenue generating element** | Conference centre, parking |
| **External economic impact** | Lifting the price level of neighbouring properties, multiplication effect of the conference centre |
| **Project maturity** | Preliminary concept phase |

Map: GoogleMaps

9.4.2.

| | |
|---|---|
| **Name of the project** | Castle bazaar, Várbazár, Budapest |
| **Location** | Budapest |
| **Anticipated project budget** | 12 billion HUF (according to the earlier plans from 2003) |
| **Included in IUDS** | Yes |
| **Eligibility for ROP criteria** | The project is located in Budapest, not in the two regions selected by ROP |
| **Eligibility in regards to JESSICA financing** | Urban development with public and commercial facilities, UNESCO heritage rehabilitation, included in the local IUDS |
| **Project description** | The Várbazár is a palatial building with a renaissance garden planned in 1875 by Miklós Ybl, in Buda centre, near to the Danube river. It hosted commercials, and later an art college, studios and flats for artists until 1961. Until 1981 the gardens were used as a famous "youth park". However when the park became dangerous it was closed for indefinitely. The property is still empty and in bad condition.<br><br>The latest concept plans are connected to an investment tender, launched in the year of 2000 by the property management company (Budai Várgondnokság) which is owned by the state and the local district municipality. The investment process was cancelled in 2005.<br><br>According to the plans collected in 2003 by Bánáti-Hartvig Studio, the reconstruction of the complex covering about 16,000m$^2$, would include an office centre, retail, service and catering units and underground parking. The total value of this development was 12 billion HUF. |
| **Anticipated construction start date** | not available |
| **Revenue generating component** | Rental price of commercial units |
| **External economic impact** | Strengthening the attractiveness of the UNESCO heritage area |
| **Project maturity** | Concept plan and preliminary financial documentation owned by private investor. Current priorities are not clear. |

9.4.3.

| | |
|---|---|
| **Name of the project** | Puskás Ferenc Stadion |
| **Location** | Budapest |
| **Anticipated project budget** | not available |
| **Included in IUDS** | Yes |
| **Eligibility for ROP criteria** | The project is located in Budapest, not in the two regions selected by ROP |
| **Eligibility in regards to JESSICA financing** | Urban leisure development with revenue generating components, included in the district IUDS |
| **Project description** | The Puskás Ferenc Stadium, the largest stadium in Hungary, is situated in Budapest and was built in 1953. The facility is in a bad condition, some parts of the tribune are unusable. The stadium has a football pitch with a running track around the edge and a tribune with 68 976 seats. Important matches and concerts are occasionally held in the stadium.<br><br>In 2011, 500 million HUF are set aside for the first phrase of the redevelopment project. The plan of the Ministry is to have a new modern stadium by 2014 with 65 000 seats. Proposals for this tender have set out a new stadium without an athletic field allowing a tribune closer to the football field. Additional uses, including retail units, fitness rooms and offices, are also planned to make the complex profitable. The Ministry also wants to refurbish the whole sports park including other buildings around the stadium.<br> |
| **Anticipated start date** | not available |
| **Revenue generating component** | Rental income from commercial units and events |
| **External economic impact** | Development of event tourism |
| **Project maturity** | Project idea, technical plans under preparation |

Map: GoogleMaps

9.4.4.

| | |
|---|---|
| **Name of the project** | Talentis core programme |
| **Location** | Herceghalom, Zsámbék |
| **Anticipated project budget** | ~400 billion HUF |
| **Included in IUDS** | Yes |
| **Eligibility for ROP criteria** | The project is located in the Central Hungarian and Central Transdanubian region, not in the two regions selected by ROP |
| **Eligibility in regards to JESSICA financing** | The Hungarian private developer, Talentis Group, has launched a knowledge-based regional development programme, including educational, R&D, business, residential and recreational, as well as environmental development projects, in Herceghalom and Zsámbék (Agglomeration area of Budapest) |
| **Project description** | Key projects:<br>1. Expo and congress centre<br>The project includes in the first phase: a congress hall (10.000m²) with a hotel and the Central European Science- Knowledge Expo at a cost of 309 million EUR up to 2014. Further phases are planned; the ambition is to host the World Expo after 2020.<br>2. Business Park<br>56 hectare site, the first phase of the development, comprising of over 100,000m² of A-class office space, has already been realised on a 10.2– hectare site . Accommodating innovation and technology , R&D and production units will add up to 12 million EUR in total.<br>3. Campus<br>University facilities with research centres will be located next to the expo centre.<br> |
| **Anticipated start date** | First phase till 2014 |
| **Revenue generating component** | Congress hall, expo area, events, rental price of office and research centres, sales of development sites |
| **External economic impact** | Suburban development, strengthening of national innovation, education and high-tech industry |
| **Project maturity** | Plans are available, first phase of project is prepared |

Sitemap: Talentis

9.4.5.

| | |
|---|---|
| **Name of the project** | Talentis inner-city development |
| **Location** | Zsámbék |
| **Anticipated project budget** | 1,2 billion HUF |
| **Included in IUDS** | Yes |
| **Eligibility for ROP criteria** | The project is located in the Central Hungarian region, not in the two regions selected by ROP |
| **Eligibility in regards to JESSICA financing** | Inner-city rehabilitation with commercial uses included in the local IUDS |
| **Project description** | The programme includes the following elements:<br>Development of a hotel, bus station, market hall, retail and service units in the inner part of the Zsámbék.<br>The programme is supported by the local municipality.<br> |
| **Anticipated construction start date** | till 2014 |
| **Revenue generating function** | Rental income from commercial units and sales of development sites |
| **External economic impact** | Development of local retail and service network |
| **Project maturity** | Physical plans are available |

Sitemap: Talentis

9.4.6.

| | |
|---|---|
| **Name of the project** | Talentis transport network development |
| **Location** | Herceghalom |
| **Anticipated project budget** | not available |
| **Included in IUDS** | Yes |
| **Eligibility for ROP criteria** | The project is located in the Central Hungarian region, not in the two regions selected by ROP |
| **Eligibility in regards to JESSICA financing** | Suburban transportatino network development, with commercial elements, included  n the local IUDS. |
| **Project description** | The Hungarian private developer, Talentis Group, has launched a knowledge-based regional development programme, that also includes the development of transportation network in the relevant settlements. There are three suburban railway stations (marked with green points on the map) planned in connection with the congress hall, expo area and the educational center. The railway stations will have retail and service facilities also.<br><br> |
| **Anticipated construction start date** | not available |
| **Revenue generating component** | Rental income from commercial units and events |
| **External economic impact** | Development of event tourism |
| **Project maturity** | Project idea, technical plans under preparation |

Sitemap: Talentis

General evaluation of projects

This chapter of the study contains the analysis of the eligibility of the surveyed projects under the ROP and Transport OP priority system and the general criteria of JESSICA. The following first table shows the definition of main eligibility issues and potential problems.

**Eligibility level of projects**

| | Project name | City | Project type | included in an IPSUD | included in OP priority | potential for revenue generation |
|---|---|---|---|---|---|---|
| 1. | Millenáris 3. | Budapest | Urban regeneration with cultural and commercial uses | yes | Central Hungary OP | no information |
| 2. | Castle bazaar, Várbazár | Budapest | Urban regeneration with cultural and commercial uses | yes | Central Hungary OP | yes |
| 3. | Puskás Ferenc Stadion | Budapest | Development of a sport facility | yes | Central Hungary OP | yes |
| 4. | Multimodal Centre | Debrecen | Urban development, local transport development including commercial uses | yes | Transport OP | yes |
| 5. | Market Hall development | Nyír-egyháza | Urban development with commercial uses | yes | ROP | yes |
| 6. | Development of old barrack sites | Nyír-egyháza | Brownfield site development with commercial uses | yes | ROP | yes |
| 7. | Development of sewage system | Miskolc | Urban infrastructure development | yes | no | yes |
| 8. | Inner-city rehabilitation in Miskolc | Miskolc | Urban development with commercial uses | yes | ROP | yes |
| 9. | Market Hall development | Salgótarján | Urban development with commercial use | yes | ROP | yes |
| 10. | Old Glass factory | Salgótarján | Brownfield development | yes | ROP | yes |
| 11 | GreenEnergy | Sajókaza | Waste depot rehabilitation | no | no information | yes |
| 12. | Intermodal Centre | Kecskemét | Urban development, local transport development including commercial uses | yes | Transport OP | yes |
| 13. | Intermodal Centre | Miskolc | Urban development, local transport development including commercial uses | yes | Transport OP | yes |

| | Project name | City | Project type | included in an IPSUD | included in OP priority | potential for revenue generation |
|---|---|---|---|---|---|---|
| 14. | Regional Public Transportation Centre | Székes-fehérvár | Urban development, local transport development including commercial uses | yes | Transport OP | yes |
| 15. | Intermodal Public Transportation Centre | Pécs | Urban development, local transport development including commercial uses | yes | Transport OP | yes |
| 16. | Intermodal Centre | Eger | Urban development, local transport development including commercial uses | yes | Transport OP | yes |
| 17. | Intermodal Centre | Kaposvár | Urban development, local transport development including commercial uses | yes | Transport OP | yes |
| 18 | Talentis core programme | Herceg-halom, Zsámbék | Complex suburban innovation area development | yes | Central Hungary OP | yes |
| 19 | Talentis inner-city rehabilitation | Zsámbék | Inner-city rehabilitation | yes | Central Hungary OP | yes |
| 20 | Talentis transport network development | Herceg-halom | Suburban transport network development | yes | Transport OP | yes |

The second table shows the readiness of the different projects, the availability of the required documents (technical plans, financial plans, feasibility study).

### Project viability

| | Project name | City | Technical documentation | Financial documentation | Feasibility study | Possibility for investment in this programming period |
|---|---|---|---|---|---|---|
| 1. | Millenáris 3. | Budapest | - | - | - | Project idea, needs further development |
| 2. | Castle bazaar, Várbazár | Budapest | not available | not available | not available | Project idea, needs further development |
| 3. | Puskás Ferenc Stadion | Budapest | not available | - | - | Project idea, needs further development |

| | Project name | city | Technical documentation | Financial documentation | Feasibility study | Possibility for investment in this programming period |
|---|---|---|---|---|---|---|
| 4. | Multimodal Centre | Debrecen | Concept plan | Cost estimation | Under preparation | Yes with further development |
| 5. | Market Hall development | Nyíregyháza | Concept plan | Cost estimation | - | Yes with further development |
| 6. | Development of old barrack sites | Nyíregyháza | Technical plans for site preparation | Cost estimation | - | Yes with further development |
| 7. | Development of sewage system | Miskolc | Detailed technical plans in Q2 2012 | Preliminary financial plan | Preliminary feasibility study | Yes with further modification |
| 8. | Inner-city rehabilitation in Miskolc | Miskolc | Detailed technical plans | Financial plan | Feasibility study | Yes with further modification |
| 9. | Market Hall development | Salgótarján | Technical plans are under modification | - | - | Yes with further development |
| 10. | Old Glass factory | Salgótarján | - | - | - | Project idea, needs further development |
| 11. | GreenEnergy | Sajókaza | Technical plans available | Financial plans available | Available | no |
| 12. | Intermodal Centre | Kecskemét | Concept plan | Cost estimation | Under preparation | Yes with further development |
| 13. | Intermodal Centre | Miskolc | Concept plan | Cost estimation | Under preparation | Yes with further development |
| 14. | Regional Public Transportation Centre | Székes-fehérvár | Concept plan | Cost estimation | Under preparation | Yes with further development |
| 15. | Intermodal Public Transportation Centre | Pécs | Concept plan | Cost estimation | Under preparation | Yes with further development |
| 16. | Intermodal Centre | Eger | Concept plan | Cost estimation | Under preparation | Yes with further development |
| 17. | Intermodal Centre | Kaposvár | Concept plan | Cost estimation | Under preparation | Yes with further development |
| 18 | Talentis core programme | Herceg-halom, Zsámbék | Concept plan | Financial plans available | Available | Yes with further development |
| 19 | Talentis inner-city rehabilitation | Zsámbék | Detailed plan | Financial plans available | Available | Yes with further modification |
| 20 | Talentis transport network development | Herceg-halom | Concept plan | Cost estimation | - | Yes with further modification |

## Maturity of projects

According to the eligibility and readiness level of the surveyed projects we defined three different groups of them, to have a clear overview about the possible project pipeline by the implementation of JESSICA scheme. The subdivisions of projects are the followings:

1) **Mature projects** are eligible for the criteria system of ROP/TOP and JESSICA and have the necessary technical and financial documents, viable in this programming period,
2) **Planned projects** are eligible for the criteria system of ROP/TOP and JESSICA and have some parts of the necessary technical and financial documents or are these under preparation, viable for this programming period with modification and further development,
3) **Proposed projects** for the next programming period have to acquire the documents in line with the criteria system of ROP/TOP and JESSICA, viable for this programming period with modification and further development, but have the risk of delay,

Mature projects could be implemented first, after the launch of JESSICA scheme in Hungary, while planned projects after further preparation are able to start during this programming period. Proposed projects may obtain the technical and financial plans till 2013 but they might reach the mature status during the next programming period.

In our analysis we identified 1 mature project which already has the necessary technical and financial plans, premises and is eligible for ROP and JESSICA criteria also. The project cost is 5,5 billion HUF in total. The planned project category includes 12 projects which have some parts of the documentation or these are under preparation. This group has the total value of projects about 37,5 billion HUF. The third group has 4 projects and does not possess the necessary plans or cost estimations.

The **preparation process** of urban development projects has some special steps based and connected to each other. The estimated time of the different preparation steps varies, and depends on the type and complexity of the project! The timeframes presented in the table below, are average time durations:

| Action | Timeframe (month) |
|---|---|
| concept development (including concept plan) | 2-4 |
| modification of the local IUDS and AP | 1-3 |
| modification of the Urban Regulation Plan (in Budapest if it is necessary, on metropolitan and on district level) | 3-6 |
| development of detailed technical plans (including special permits) | 3-6 |
| development of financial plans | 2-3 |
| building permit | 2-4 |

The average duration of the entire project preparation process is estimated between 9-17 months. Special actions can be developed parallel with each other, but we would like to highlight, that the average time depends on the particular projects (type, complexity, regulation environment, project owner).

**Maturity of projects**

| Project name | Project type | Project value (billion HUF) |
|---|---|---|
| **Mature project** | | |
| Inner-city rehabilitation in Miskolc Miskolc | Urban development with commercial uses | 5,5 |
| *Total value of mature projects* | | *5,5* |
| **Planned projects** | | |
| Multimodal Centre Debrecen | Urban development, local transport development including commercial uses | 20,0 |
| Intermodal Centre Miskolc | Urban development, local transport development including commercial uses | 10,1 |
| Intermodal Centre Kecskemét | Urban development, local transport development including commercial uses | 17,0 |
| Intermodal Public Transportation Centre Pécs | Urban development, local transport development including commercial uses | 10,1 |
| Regional Public Transportation Székesfehérvár | Urban development, local transport development including commercial uses | 10,0 |
| Intermodal Centre Kaposvár | Urban development, local transport development including commercial uses | 30,0 |
| Market Hall development Nyíregyháza | Urban development with commercial uses | 1,5 |
| Development of old barrack sites Nyíregyháza | Brownfield site development with commercial uses | 10,6 |
| Development of sewage system Miskolc | Urban infrastructure development | 3,9 |
| Market Hall development Salgótarján | Urban development with commercial use | 1,5 |
| Old Glass factory Salgótarján | Brownfield development | 1,2 |
| *Total value of planned projects ROP* | | *18,7* |
| *Total value of planned projects TOP* | | *97,2* |
| **Proposed projects** | | |
| Millenáris 3. Budapest | Urban regeneration with cultural and commercial uses | not available |
| Castle bazaar, Várbazár Budapest | Urban regeneration with cultural and commercial uses | 12 |
| Puskás Ferenc Stadion Budapest | Development of a sport facility | not available |
| *Total value of proposed projects* | | *12 (+)* |

## 9.5. Annex: European Commission regulations of relevance to JESSICA

### *Legislative Provisions*

In the context of the Structural Funds, the regulatory framework regarding financial engineering instruments for urban development includes primarily:

- Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund as amended by Council Regulation (EC) No 284/2009 of 7 April 2009 and Council Regulation (EC) No 539/2010 of 16 June 2010;
- Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund of 5 July, 2006, amended by the Regulation (EC) No 397/2009 of the European Parliament and of the Council of 6 May 2009 and Regulation (EC) No 437/2010 of the European Parliament and of the Council of 19 May 2010;
- Commission Regulation (EC) No 1828/2006 of 8 December, 2006 that sets out rules for the implementation of Council Regulation (EC) No 1083/2006, amended by the Commission Regulation (EC) No 846/2009 of 1 September 2009.

According to Article 44 of Council Regulation (EC) No 1083/2006 of 11 July 2006, UDFs are "funds investing in public-private partnerships and other projects included in an integrated plan for sustainable urban development." The regulatory framework further specifies that "urban development funds shall invest by means of equity, loans and guarantees."[6]

In addition to the above provisions, JESSICA operations will have to comply with other applicable EU and national legislation like for instance public procurement legislation, state aid rules, environmental legislation, etc.

### *Guidance Notes*

The Commission has also prepared several guidance notes which were transmitted to the Coordination Committee of the Funds[7] and provide interpretations and recommendations relevant for the implementation of JESSICA instruments:

- Guidance Note n°1 on Financial Engineering in the 2007-2013 programming period (16/07/2008);
- Guidance Note n°2 on Financial Engineering (22/12/2008) including replies from the EC to the questions submitted by the JESSICA Expert Working Group of the Member States;
- Guidance note on eligibility of energy efficiency and renewable energies interventions under the ERDF and the Cohesion Fund (2007-2013) in the building sector including housing (COCOF 08/0034/02/EN of 29/10/2008);
- Guidance Note on Financial Engineering Instruments under Article 44 of Council Regulation (EC) No 1083/2006. COCOF_10-0014-04-EN of 21/02/2011.