URBACT II

JESSICA 4 Cities

How cities can make the most from Urban Development Funds

FINAL REPORT

August 2010

Connecting cities
Building successes

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INDEX

PART B

PART C

PART D

INTRODUCTION

This Final Report aims to provide to the URBACT community, European Institutions and cities concrete cases for further analysis and development on the project topic.

The constitution of the "JESSICA for Cities" Working Group has been promoted by the EIB JESSICA Task Force in order to develop a greater understanding of the JESSICA initiative by providing a "JESSICA Toolbox for Cities" based on WG partners' experiences, in order to enable European cities to use the opportunities offered by this tool more effectively.

Partners of J4C WG are: Regional Government of Tuscany, Managing Authority ERDF 2007 – 2013 (Florence, IT) as Lead Partner, AGMA Association Grater Manchester Authority (UK), Porto Vivo, SRU– Sociedade de Reabilitação Urbana, S.A. (PT), Brasov Metropolitan Association (RO), Municipality of Athens Development Agency (GR), Poznan City Hall (PL).

The WG worked in close cooperation with the EIB JESSICA Task Force.

Launched on April 2008 and ended on May 2010, JESSICA for Cities aimed to be an experimental exercise on how to use in practice JESSICA in each of the Partners' city/region/metropolitan area or association, by studying the implementing structure of JESSICA and Urban Development Funds (UDFs) foreseen to invest in PPP and other projects included in an integrated plan for sustainable urban development, with regard to existing Structural Fund regulations and to national/local constraints and requirements.

The real difficulty faced by all partners in the JESSICA 4 Cities project was a lack of clear guidance at an EU institution level about the regulatory and operational framework of JESSICA.

The inability to clearly state how a scheme as large and innovative as JESSICA should work has been an issue for all partners in the J4C project.

It is only during the final period of the project that any clarity of how JESSICA will operate has been available. It has become clear that the original stated aims of the project to produce examples of "Jessicable" projects from across Europe were unlikely to be deliverable, although project examples were still to be included in the final report.

The J4C partners agreed to shift the focus of the project away from a study of "Jessicable" projects to a study of why this has been almost impossible to do. Therefore, a case by case analysis appeared to be the most appropriate.

In extremely synthesis, major progresses on JESSICA at partner level have been the following.

Tuscany Region signed the Agreement with EIB for the second phase of the Evaluation Study on JESSICA model in Tuscany. Tuscany Region contribution in the project is the advanced experience in integrated plan for sustainable urban development (the Italian acronym is PIUSS).

Greater Manchester and Poznan have responded to the call for tenders issued by the European Investment Bank to establish UDFs. Their relevant MAs have settled the HF managed by the EIB.

Porto Vivo relevant Managing Authority is elaborating the call for UDFs in Portugal.

Brasov Metropolitan Area has started with the JESSICA Task Force from EIB to develop the Study for BMA to introduce and operate UDFs under JESSICA model – pilot project for Romania.

AEDA, during the JESSICA Conference in Athens (April 2010) launched the Hellenic JESSICA Network.

The real benefit of participation in this project (in terms of creating a level of expertise in JESSICA) has been twofold:

- firstly for the opportunity to share information and experiences and to discuss unsolved doubts with partners from across Europe,

- secondly for the access to EIB Task Force staff ("associated partner" and first real promoter of the Working Gruoup) and the European Commission JESSICA representatives (participation of EU staff in two WG meetings and attendance of WG members in DG Regio JESSICA Networking Platform meetings).

SUMMARY

The aim of this Report is to discuss the potentials of financial engineering instruments for integrated urban development initiatives under the EU framework. The Report will discuss both theoretical and practical aspects. There are several open question about i) how to use Private Public Partnerships for urban investments in the best way; ii) how to make best use of Structural Funds to finance part of the initiatives; iii) how to increase efficiency and productivity by making use of innovative and revolving instruments in the urban sectors; iv) how to mobilize additional resources by the leverage effect; and v) how to utilize financial, managerial and project expertise coming from the private sector and from EU financial institutions such as the EIB.

The process of urbanization in the European Union has been increasing in the last few decades. There are indeed great opportunities for integrated projects of urban development. Historical centres, heritage, industrial spaces, housing, basic infrastructures, waterways, networks, transportation, energy facilities and human resources, will require a great deal of industrial, social and financial planning. There is great activity throughout the Union member countries at a local and regional level. Considering that local and regional authorities contribute to more than two thirds of total fixed investments of the Union, the resources being required for urban development initiatives in the EU-27 are potentially huge. The Urban Development Funds or integrated urban initiatives are – of course – a sub set of total metropolitan investments. However, looking at the list of "objects" that may enter an UDF, such instruments may become a major driver of EU urban development and restructuring initiatives in the next few years.

At the EU policy level there has been great emphasis about promoting integrated projects of urban development. The main drivers are the reinforcement of the role of "financial engineering instruments" and the strengthening of the urban dimension in EU Cohesion Policy – Bristol Accord on Sustainable Communities (December 2005) and Leipzig Charter (May 2007). EU Commission (DG-Regio), which is supported by the EIB, launched Jessica as a technical assistance initiative to promote the application of financial engineering instruments to urban development in the program period 2007-2013. The Urbact Network was designed to be a learning tool. It includes: 27 Thematic Networks, 181 cities involved, around 3000 stakeholders in local support groups and around 200 Managing Authorities.

The new financial instruments have to be considered in light of the effects that the 2008 crisis has had on EU public finance framework. EU public budgets are strained and public debts have risen to the highest level since the post-war years. In order to return to the pre-crisis debt to GDP ratios, UE-27 will need

– at least – a ten year fiscal adjustment process equal to 1-1.5% of GDP per year. This will strongly constrain public resources for financing fixed investments. This is one of the reasons behind the recent Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions entitled "Mobilising private and public investment for recovery and long term structural change: developing Public Private Partnerships" (19 November 2009). To tackle the financial and economic crisis – we read in the Commission Communication – the EU and its Member States are implementing ambitious recovery plans that aim to stabilise the financial sector and limit the impacts of the recession on citizens and the real economy. Investment in infrastructure projects is an important mean to maintain economic activity during the crisis and to support a rapid return to sustained economic growth. Public Private Partnerships (PPPs) can provide effective ways to deliver infrastructure projects, to provide public services and to innovate more widely in the context of these recovery efforts. At the same time, PPPs are interesting vehicles for the long term structural development of infrastructures and services, bringing together distinct advantages of the private sector and the public sector, respectively.

The effects of the crisis, however, may have a few drawbacks for PPP initiatives. The liquidity and the low interest rates will probably be maintained by central banks for the next couple of years. However, there is strong uncertainties about what is going to happen afterwards. The deleveraging process (both private and public) may require higher inflation and higher interest rates. Moreover, the slow recovery rates may keep the real estate market depressed for some years to come. This will have two effects on PPPs initiatives: (1) higher interest rates on the debt side and (2) higher leverage and risk on the equity side. What this means is that only integrated project which have a strong mixed of cash flow and high potential capital gain assets may be able to attract private capitals.

The needs of enormous investment in cities have thus to be seen against the background of the actual economic environment. Currently, traditional sources of senior debt for infrastructure and energy investments are severely constrained. The capital markets provide little senior debt to these sectors. Also, obtaining bank funding is currently particularly challenging due to significant liquidity and capital constraints of the major banking groups, a low volume of syndications, and continuous reductions of the average amount each bank is able to commit per transaction. These factors together will make a significant challenge for getting some of PPP and PFI projects off the ground, unless substantial equity, private, corporate, and public sector support is put in place.

If the public Administrations were efficient and technically strong, given that the cost of borrowing for sovereign and public entities is the lowest on the market, why shouldn't the public sector borrow directly the money for public investments, instead of paying an extra cost for PPP and PFI projects in terms of transaction costs and higher profit share of private partners? The growing deficit is of course a concern, but *writing "full" guarantee to private companies will not bring lasting health to the books. This idea belongs to an era in which it was too often assumed that money men had the power of alchemy. After the financial storm will clear, a new form of capitalism will emerge. In that new world, it may well start to seem a good idea for the government to do its own borrowing. It is rather difficult to have a fair judgment on the whole issue. Much will depend on specificities (sectors, countries, quality of Public administration, etc.). Much will depend also, as we shall argue, on market conditions. In time where, due to the effects of the crisis, the debt to GDP ratios of UE countries are projected over 120% by 2014, the temptation of Governments to rely on the magic of PPP and PFI is indeed very strong. The question is: if public budget will eventually have to bear the extra expenses of the PPPs , is it fair to transfer, once again, the costs of public investments to future generations?*

PART A

CONCEPTUAL FRAMEWORK

I. THE EFFECTS OF THE CRISIS ON URBAN INVESTMENTS, PUBLIC PRIVATE PARTNERSHIPS (PPPs), AND URBAN DEVELOPMENT FUNDS (UDFs)

1. The crisis of EU fiscal budget and the need to increase investments

The financial crisis will have a significant impact on the public finance of most countries throughout the world. The debt/GDP ratio of the "advanced economies" within the G-20 reached the value of 101.8% in 2009 and could increase to 121.7% in 2014. The public debt in industrial countries is expected to largely expand, while that of the emerging countries should remain broadly stable at around 30% of GDP. From a long-term standpoint, the debt/GDP ratio of advanced countries could even exceed the quota of 250%.

Serious consideration must be therefore given to possible exit strategies from the "new fiscal crisis of the governments" that is taking place in G-20 economies. Recent trauma greatly weakened public finances just when girding to face the challenges of pending demographic shock. What are the risks that might be engendered by this difficult adjustment? The actual and sudden increase in public debt has been never experienced by Western countries, excluding periods of war. Considering the costs related to actions to support financial systems (according to IMF estimates, these costs should be equal to about 5% of GDP in advanced economies), the mire caused by recession and fiscal conditions, which are not merely cyclical, has reached a magnitude never witnessed before. The deficit, adjusted for the business cycle, will still be high in 2010, being equal to 3.5% of GDP. The end of measures aimed at stimulating the fiscal sector could ease the burden on public finances by about 1.5% of GDP. In the meanwhile, we will still face high public debt everywhere. At the same time, interest rates paid on debt servicing will be expected to rise by at least 2 percentage points, starting since 2014. Finally, in about five years, demographic pressures will start to impact on the economy, posing serious threats to the fiscal stability of governments. What do we have to do?

The debt/GDP ratio may be reduced by i) generating inflation; ii) creating surplus production; iii) increasing the GDP. The first route is not advisable, and would surely be counteracted by ECB. However, at the global level (especially in the United States, which have a much more "flexible" monetary policy), we cannot rule out the "administration" of a dose of inflation to help to deflate the debt balloon generated during the crisis. Recently, it has been estimated that at a rate of 6% inflation over the next five years the average ratio of government debt to GDP of the advanced economies could fall by 8-9 points, compared with the baseline scenario (inflation at 2%). Obviously, double-digit inflation would have a significantly different impact. Troubles experienced during the 1970s counsel against taking this path. In fact, high inflation seriously distorts the allocation of resources, reduces the rate of economic growth, hits the poorest citizens the hardest, creates social and political instability, and once unleashed, inflation is hard to contain and negative effects are unpredictable. Price stability must be maintained and central banks should work to ensure it.

The second route to cutting public debt, generating significant surpluses over several years, would be difficult to achieve on a practical level, though seemingly a lone alternative. In the last 15 years, no major Western country has managed to cut current spending, and most of the surpluses (or the initiatives that directly contributed to reducing the debt) were achieved by extraordinary measures, such as privatisations, tax amnesties and accounting operations. At most, a rigorous fiscal policy would keep the ratio constant, but reducing it is very difficult. The IMF estimates that in order to cut government debt to pre-crisis levels, the average budget adjustment of the G-20 advanced economies (between 2011-2020) would have to be on the order of 8% of GDP, of which, 1.5 points in lower costs for economic stimulus measures, 3.5 points in cuts to primary expenditure (excluding healthcare and pensions), and 3 points in revenue measures, such as tax rationalisation, curbing tax evasion and tax increases. A further 3-4% of GDP will be required to tackle healthcare costs and pension obligations as a result of demographic developments. This achievement would require a decade of spending cuts or tax increases nearing 1-1.5% of GDP annually. In other words, each year, for 10 years, the EU-27, the largest economic area in the world, would be required €150-€200 billion in spending cuts (or revenues increases). Quite a politically treacherous path to take – and dangerous if popular support denied a political class showing no more resources - offering only spending cuts or higher taxes. It is likely that the issue of the "new fiscal crisis of states" will once again dominate political discussion in the coming years.

Finally, the third option would be to boost the average rate of GDP growth. While a most desirable solution, is not easy to achieve. Countries with mature economies will exhibit modest, if not stagnant, growth (in the last 15 years, growth has not exceeded 2%, while 30 years prior, growth averaged 5%). The much vaunted reforms to liberalize markets, boosting competition and expanding free-market forces, have not yielded desired results. Nevertheless, growth is a strong ally in the fight against debt. For example, with debt equal to 100% of GDP, an annual 1% year increase in growth (assuming constant public spending and a tax burden of 40%) could reduce the debt/GDP ratio by 28 percentage points over 10 years. One feasible way to stimulate growth is to channel major flows of long-term capital in European initiatives with a strong environmental component. Such investments might spur economic growth significantly while using a minimum amount of public resources.

2. A brief introduction to Public Private Partnership (PPP)

Public Private Partnership (PPP) is a government service or private business venture which is funded and operated through a partnership of government and one or more private sector companies.

PPP involves a contract between a public sector authority and a private party, in which the private party provides a public service or project and assumes substantial financial, technical and operational risk in the project. In some types of PPP, the cost of using the service is borne exclusively by the users of the service and not by the taxpayer. In other types (notably the private finance initiative), capital investment is made by the private sector on the strength of a contract with the government to provide agreed services and the cost of providing the service is borne wholly or in part by the government.

Government contributions to a PPP may also be in kind (notably the transfer of existing assets). In projects that are aimed at creating public goods like in the infrastructure sector, the government may provide a capital subsidy in the form of a one-time grant, so as to make it more attractive to the private investors. In some other cases, the government may support the project by providing revenue subsidies, including tax breaks or by providing guaranteed annual revenues for a fixed period.

Typically, a private sector consortium forms a special company called a "special purpose vehicle" (SPV) to develop, build, maintain and operate the asset for the contracted period. In cases where the government has invested in the project, it is typically (but not always) allotted an equity share in the SPV. The consortium is usually made up of a building contractor, a maintenance company and bank lender(s). It is the SPV that signs the contract with the government and with subcontractors to build the facility and then maintain it. In the infrastructure sector, complex arrangements and contracts that guarantee and secure the cash flows, make PPP projects prime candidates for project financing. A typical PPP example would be a hospital building financed and constructed by a private developer and then leased to the hospital authority. The private developer then acts as landlord, providing housekeeping and other non medical services while the hospital itself provides medical services.

Pressure to change the standard model of Public Procurement arose initially from concerns about the level of public debt, which grew rapidly during the macroeconomic dislocation of the 1970s and 1980s. Governments sought to encourage private investment in infrastructure, initially on the basis of accounting fallacies arising from the fact that public accounts did not distinguish between recurrent and capital expenditure.

The idea that private provision of infrastructure represented a way of providing infrastructure at no cost to the public has now been generally abandoned, interest in alternatives to the standard model of public procurement persisted. In particular, it has been argued that models involving an enhanced role for the private sector, with a single private sector organization taking responsibility for most aspects of service provisions for a given project, could yield an improved allocation of risk, while maintaining public accountability for essential aspects of service provision.

Initially, most public-private partnerships were negotiated individually, as one-off deals. In 1992, however, the conservative government of John Major in the United Kingdom introduced the private finance initiative (PFI), the first systematic programme aimed at encouraging public-private partnerships. In the 1992 programme, the main focus was on reducing the Public Sector Borrowing Requirement, although, as already noted, the effect on the public accounts was largely illusory. The Labour government of Tony Blair elected in 1997, persisted with the PFI sought to shift the emphasis to the achievement of "value for money" mainly through an appropriate allocation of risk.

A common problem with PPP projects is that private investors obtained a rate of return that was higher than the government's bond rate, even though most or all of the income risk associated with the project was borne by the public sector.

A number of recent studies of early initiatives to promote private investment in infrastructure reached the conclusion that, in most cases, the schemes being proposed were inferior to the standard model of public procurement based on competitively tendered construction of publicly owned assets.

One response to these negative findings was the development of formal procedures for the assessment of PPPs in which the central focus was on "value for money" rather than reductions in debt. The underlying framework was one in which value for money was achieved by an appropriate allocation of risk.

3. Is PPP better than loans as a financing solution for Public Administrations?

If the public Administrations were efficient and technically strong, since the cost of borrowing for sovereign and public entities is the lowest on the market, then why shouldn't the public sector borrow directly the money for public investments, instead of paying an extra cost for PPP and PFI projects in terms of transaction costs and higher profit share of the private partners? The growing deficit is of course a concern, but writing "full" guarantee to private companies will not bring lasting health to the books.

After the financial storm clears, some believe, a new form of capitalism may emerge. And in that new world it may well start to seem like a good idea for the government to do its own borrowing?

It is rather difficult to have a fair judgment on the whole issue. Much depends on specificities (sectors, countries, quality of Public administration, etc.). Much depends also, as we shall argue, on market conditions. In time where, due to the effects of the crisis, the public debt to GDP ratios of UE countries are projected over 120% by 2014, the temptation of Governments to rely on the "magic" of PPP and PFI is indeed very strong. The question is: if public budget will eventually one day or another have to bear the extra expenses of the PPPs, is it fair to transfer once again the cost of public investments to future generations?

4. PPP and PFI: Benefits for the private sector

There are benefits for the private sector to get involved in PPP projects. Types of projects where PPPs have been successfully applied in the past include transport (i.e. road, rail and ports), water, waste, hospitals, schools, public housing, prisons and defence. This shows a clear focus on technical infrastructure. Investment in deprived neighbourhoods very often did not seem attractive or interesting to private sector. The following list shows some benefits and good reasons for private sector investment and PPPs also in deprived urban neighbourhoods.

- Low budget supermarkets can benefit from becoming part of a neighbourhood centre in deprived neighbourhoods where most of their customer base lives due to the generally low income levels of the local community. In return, the local community would gain access to cheap food and groceries, employment, job training etc.

- Telecommunication and IT companies can benefit from making their services and networks available to deprived neighbourhoods, due to the fact that even in the most deprived area a lot of residents have access to phones/mobiles, in return such services help to enhance competitiveness of areas and communication potentials.

- Local entrepreneurs, like local grocery stores, bakeries, and ethnic enterprises, are an important asset and opportunity in deprived urban areas where small-scale enterprises and business creators often find a favourable environment for the difficult foundation period.

- Creation of tourist attractions, promoting the positive sides of different ethnic cultures and their contribution to an interesting city.

5. The effects of "fiscal crisis" on public investments, PPP and PFI options

As a result of the current crisis, financial institutions have become much more risk averse. At the same time, the leveraged financing structures, particularly in less established sectors such as the strategic energy and climate change, transport, infrastructure and urban developments investments, may have to be re-balanced, resulting in a need for further significant equity investments.

In financing European infrastructure, energy, utilities, urban developments projects and funds, there has been, in recent years, a strong shift away from bond financing towards bank financing. Furthermore, there has been an associated shift towards short-term variable rate loans, while medium/long-term fixed rate funding, normally associated with bond markets, has been progressively loosing its relevance. Bank financing of these sectors reached a level of about EUR 120 billion in 2007 up from EUR 45 billion in 2003.

Bond financing was flagged at about EUR 40 billion per year over the same period, while equity financing doubled to about EUR 15 billion in the same period. The number of infrastructure, real estate and urban funds has increased substantially during the last years.

The PPP programmes are still being implemented, even though a number of larger deals are delayed and most are struggling to reach financial close. There are first signs of some PPPs not being pursued as PPPs anymore, which is particularly concerning as it can have longer term implications on the markets as a whole. Even medium size reasonably standard projects have proven to be difficult to close. Notwithstanding, smaller deals are closing, and this is good news for the urban development funds.

It is vital that PPP programmes are not abandoned. Such short-sighted reaction to the difficult market conditions could have long-lasting effects: already incurred bid preparation costs would have been wasted, sponsors would lose confidence in deal flow, know-how would be lost as a consequence of resources re-direction. It is particularly important for market confidence that PPP programmes are adapted to reflect the current market conditions but neither abandoned nor reduced in scale to the point that confidence in the future of the market is undermined.

6. Financing PPP and PFI in the current market conditions

How to finance public investments in a perspective of tight public budget? One way is to enter PPP and PFI both to attract private funds and/or to achieve a better "value for money" by using the more efficient financing structures. The government responses to the current crisis have depended on the size of the current outstanding PPP pipeline. UK, France, Portugal and the Netherlands, with large programmes under way, are the most affected and thus also most reactive. Some countries are putting in place lending facilities (for example the UK announced a new treasury lending unit, while Germany announced a facility to be operated by KfW). The UK facility is seen as a temporary GBP 1.5 to 2 billion "top-up" facility, at commercial terms, designed to "patch the holes" in syndications and to be refinanced at the earliest possible opportunity. Other countries (e.g. France, Portugal) are implementing large guarantee facilities (EUR 10 bn for France, EUR 6 to 7 bn for Portugal). It is not yet fully clear how these guarantees will be employed, priced and structured. In addition, France is implementing an EUR 8 bn funding facility managed by Caisse des Dépots ("Fonds d'Epargnes"). The relationship between PPP and public infrastructure investment programmes in some countries is still to be worked through.

Risk sharing arrangements might be adapted to include measures mitigating particular obstacles deriving from current market conditions, for example re-financing risk due to shorter maturities of private funding (so-called "mini-perms"). At the moment, significant volumes of senior debt seem to be obtainable only with relatively short maturities imposing a refinancing risk on the project. Market related lack of re-financing (i.e. not related to the project itself) is a difficult risk to predict or manage by the project companies/sponsors. Accordingly, public procuring authorities should consider to share this risk with the private sector.

To tackle the financial and economic crisis, the EU and its Member States are implementing ambitious recovery plans that aim at stabilizing the financial sector and limiting the impacts of the recession on citizens and the real economy. Investment in infrastructure projects are important means to maintain economic activity during the crisis and support a rapid return to sustained economic growth. Public Private Partnerships (PPPs) can provide effective ways to deliver infrastructure projects, to provide public services and to innovate more widely in the context of these recovery efforts. At the same time, PPPs are interesting vehicles for the long term structural development of infrastructures and services, bringing together distinct advantages of the private sector and the public sector, respectively.

However, due to the current crisis, financial institutions are becoming more selective and risk averse. At the same time, the traditional pattern of leveraged financing structures may have to be re-balanced resulting in a need for new risk bearing financing schemes (both equity and debt) aimed at facilitating the participation of private investors as well as for further significant equity investments.

The enormous investment needs have to be seen against the background of the current economic environment. Currently, traditional sources of senior debt for infrastructure and energy investments are severely constrained. The capital markets provide little senior debt to these sectors due to practically no new transactions underwritten by the monolines and low investor appetite for non-guaranteed project bonds. What is more, obtaining bank funding is currently particularly challenging due to significant liquidity and capital constraints of the major banking groups, a low volume of syndications and continuous reductions of the average amount each bank is able to commit per transaction.

These factors will jointly make a significant challenge to get some of PPP and PFI projects off the ground, unless substantial equity, private corporate and public sector support is put in place.

II. INTEGRAL APPROACH: IMPROVING THE SOCIAL, PHYSICAL, AND ECONOMIC AREA

1. Overview

Urban Development Funds (UDFs) aim to improve the social, physical, and economic conditions of the targeted district or neighbourhood. Basically, UDFs are packages of concrete measures and projects that have to deal with some central elements.

The improvement of social conditions, built environment, and local economy of the district involved are usually interrelated, in the sense that positive changes in one element often will lead to changes in the others. In fact, UDFs are area-based: they focus on neighbourhoods or districts that are characterised as deprived. An alternative way of tackling urban problems would be a policy aimed at certain population groups, wherever they live, such as 'newcomers', the unemployed, children, or the elderly. Even the fact that these groups are concentrated in specific urban areas would not make the programmes area-based. The spatial dimension then is just an unintended feature. Thus, it is important that programmes specify why they adopt an area-based approach. There are three reasons for choosing such an approach:

- The existence of a 'neighbourhood-effect';
- A preference for an integrated approach to solve problems;
- Cost-effectiveness compared to other approaches.

An area-based approach, however, has also its pitfalls. First, problems do not occur exclusively in the targeted areas. Selecting only areas with the most severe problems might imply that areas that are only slightly better off do not receive any attention at all. Second, area-based policies may move problems from one area to another. Third, by focusing only on a few neighbourhoods or districts, the potential of other parts of the city or the metropolitan area may be ignored. Finally, area-based policies are generally more visible than categorical policies. This can be both an advantage and a disadvantage.

For UDFs**,** an essential dimension is related to time. Any policy plan is basically a set of targets to be reached within a certain span of time. The fact that the temporal dimension is one of the basics of a UDF does not mean that it can be taken for granted or that it is unproblematic. The problem with the temporal dimension of UDF's is threefold. First, the time that is needed to realise physical targets is much easier to predict and to control than the time span of social or economic processes, which have their own dynamics. This is a problem because UDF's aim at an integrated approach, which means that the physical, economic, and social dimensions are co-ordinated. Second, the main actors in a UDF often have different time perspectives, which may lead to frictions in the implementation and evaluation of the programme. Third, there is the problem of sustainability. Even if targets are reached at dates set, and therefore a UDF can be considered successful, the question is whether the effects will last beyond the lifespan of the UDF.

Both targets and actors have different temporalities, which can create frictions in the process of implementation and evaluation of UDFs. The calendar of a UDF and the calendars of local actors public and private cannot always be easily synchronised. Often the main problem is the tension between the short-term perspective of politicians and the longer-term perspective of the administrators and professionals. This may result in a high degree of uncertainty for urban programmes with a timeframe beyond that of the political cycle of elections.

Especially when a UDF includes huge renewal schemes, a sustained political commitment of local and/or national politicians is needed for their successful completion. It is important that those in charge of the UDF use already completed and successful – physical and social - initiatives as a means of attracting popular, and thus political, attention. We should realise that UDFs need the effective support of politicians at different levels, but politicians also need successful UDFs in order to increase electoral support. From this perspective, it may even be possible to have politicians compete in terms of support for a specific UDF. As the saying goes, success has many fathers.

2. A new role for public authorities

Urban governance has become important because of the waning of the welfare state. The 1980s, at both the national and the local levels, witnessed the retreat of the state, thus creating more room for private initiatives. To realise policy aims, public-private partnerships became fashionable. Thus, 'government' changed into 'governance'. Recently, however, national states have been confronted with the drawbacks of too much privatisation, especially in the form of a decreasing quality of formerly public services and increasing social inequality and political tension.

It has become clear that the public sector must take up a more prominent role again, albeit in a different way than in an earlier era. The answer seems to be 'leadership in partnership'. A partnership does not necessarily mean that the partners are equal, and, in fact, in most well functioning partnerships some form of leadership is present. The public sector has to take the lead again, but in a more limited sense than in the past, involving other important actors in the preparation of new policies, in decision-making and in the implementation of policy. In addition, and of equal importance, partnership as a governing principle should also prevail within the public sector itself: different levels of public administration and different departments at the same level should consider each other as partners and co-operate. The term 'partnership' refers to a relationship in which the actors have common interests and share the rights and responsibilities of decision-making.

The concept of urban governance is important in relation to UDFs because they presuppose a form of urban governance, due to their 'integral' approach to problems. The urban governance character of UDFs stems from the facts that they:

- are based on partnership of actors at different levels;
- tackle different domains simultaneously and coherently;
- promote participation of stakeholders: the local population and other actors.

Creating partnerships within the public sector itself implies co-operation between different levels (the vertical dimension), and co-operation among departments or sectors on the same level (the horizontal dimension). In addition, there is the problem of bringing public and private partners together.

An important aspect also relates to co-operation among administrative levels. The vertical dimension of partnerships refers to the division of responsibilities and decision-making power among the national, regional, local, district, and neighbourhood levels. The extent of (de-)centralisation varies among countries, and so does the extent of involvement of actors at different levels. Where the institutional framework is very complex, legislation and conditions for funding can differ among policy levels. In those cases, procedures that are already very complex and bureaucratic become even more tedious, not only because of the multiplicity of administrative levels, but also because the transfer of responsibilities to the city leads to an overload of work at that level. Another complicating factor is that the number of levels in the decision-making process is increasing because of the growing importance of the European level at the 'upper end' and of the local level at the 'lower end'.

Generally, the more 'permeable' the vertical structure is, that is to say, the more 'voice' each level has, the more likely a fruitful co-operation among the levels is and the greater the chance for a successful UDF with lasting effects. In a good inter-level partnership, the upper level determines the basic framework and has sufficient trust in the lower level to give it the freedom and opportunity to develop a UDF, provided some coaching is given. Frequent feedback can constitute the basis for flexibility, i.e., for time-to-time changes in the planning framework. If such a partnership between the upper and the lower level is supported by guaranteed funding for a longer period of time and by the necessary requirements for an integrated approach, a good combination of top-down and bottom-up approaches is more likely.

A lack of trust between the different policy levels may lead to extreme formalisation and over-bureaucratisation. Lack of guidance and control from the higher level may lead to a situation where the lower level violates basic principles of a UDF. But in either case it is still possible to find a modus operandi that permits the formulation and implementation of a UDF to proceed. When a lack of trust results from existing conflicts between political levels, then there is the risk that an integrated approach will make those conflicts worse. In that case it may be sensible not to embark on integrated and encompassing programmes, but to work piecemeal, that is with smaller, one-dimensional projects. Along those lines the trust can be built that is needed for a more encompassing and, in the end, integrated approach.

An important dimension of partnership within the realm of public actors is the relationship between politicians and public administration. Politicians influence the formation and implementation of UDF's, directly and indirectly. In particular, their role should be:

- to define the targets of the UDF;
- to guarantee the viable political and economical conditions to execute the UDF;
- to control and evaluate the implementation of the UDF;
- to redefine the targets of the UDF if necessary.

In many cases, politicians should become more active during the implementation of the project in order to ensure the proper functioning of the conceptual framework.

3. The foundations of an integrated approach

An integrated urban plan for sustainable urban development compromises a system of interlinked actions which seeks to bring about a lasting improvement in the economic, physical, social and environmental conditions of a city or an area within the city. The key of the process is "integration", meaning that all policies, projects and proposals are considered in relation to one another.

The complexity of the city obliges policy-makers to tackle different urban problems simultaneously and in a co-ordinated way. This multi-faceted character of urban policy brings together initiatives regarding the built environment with cultural, social, economic, and cultural interventions. Such integration of different policies is one of the most difficult tasks of UDFs.

Urban policies were once organised functionally, that is by specific administrative departments, such as Housing, Social Affairs, Education, Police, and Health, at the national, regional and local levels. Each department had its own programmes, priorities, aims, cultures, and budgets. Today this functional handling of reality appears largely unsuitable mainly because it is impossible to implement a policy, programme, or project without a global understanding of its urban context. UDF's have to be implemented in spaces which have been occupied for many years. In a sense, UDF's are recycling part of the city. That is why they have to take carefully into account the characteristics of the different people living there, the territory (the patrimony, the heritage, the quality of the environment), and its specific atmosphere (the local community and its culture, the social and cultural climate). It is important to realise that complexity is not so much a problem to solve or to deny, but a condition that UDF's have to value and build upon.

In order to do justice to this complex context, the traditional urban administrations and professionals have to adapt their way of operating. This is one of the main reasons why the concept of 'urban governance' has become important. The question is how to manage urban complexity (acknowledging it as an asset) with a fragmented administrative apparatus, how, in other words, to organise a successful integrated approach.

An integrated approach can vary from just adding up the efforts made in different domains all the way to the development of a programme in which every issue has an explicit relationship with all others. An integrated UDF connects different projects in such a way that the success and failure of each project are at least partly dependent upon the successes and failures of the others. Implementing such a strategy constitutes a great challenge. The major difficulty in organising 'transversal' or 'horizontal' cooperation between administrations and departments is the juxtaposition of different fields of interest, which creates tensions and confrontations between various approaches, methods, procedures, professional cultures, and organisations.

Nevertheless, there are some positive attempts to set an integrated programme in motion, defying traditional departmental egotism. The French and German cases can be seen as examples of strong bureaucratic tradition, where interdepartmental co-operation occurs at administrative levels.

One of the principles of an urban governance approach is that target-groups and citizens should not only be informed, but actively invited and stimulated to participate in the conception and implementation of UDFs. This issue is crucial because UDFs deal with and address disadvantaged groups that are often reluctant to 'enter the game' Is participation, therefore, an illusion, or can it be realised, and, if so, does it effectively enhance the quality of the UDF?

The availability of money has strong implications for the set-up and operation of a UDF, sometimes even to the degree that the possibility of financing specific issues has a stronger influence on the content and structure of a UDF than the severity of the problems to be addressed. Also in terms of sustainability, money is of great importance: are there sufficient funds available after the UDF officially has come to an end to sustain the results?

4. Financial strategies

Different models for financing UDFs can be applied. In most cases only one single – national or federal – funding source is available. This has the obvious advantage of simplifying application procedures. However, if the application is not successful and if no alternative source of funding is available, it can mean the abortion of an intended programme. In the case of a sole provider of money, UDFs are vulnerable to changing priorities in the political agenda. To make sure that a UDF is relatively immune from changes in governmental coalitions, it is of great importance not only to be successful in terms of meeting targets, but also to disseminate these positive results to a large and relevant audience. As the saying goes, 'success has many fathers'; no matter what their political ideology, most politicians will embrace successful policies, even if they have been conceived by predecessors – or by opponents.

In cases where UDFs are financed by multiple actors, most of the time there is one main contractor – usually the national government or the EU – who demands co-financing, sometimes even as an obligatory condition for supplying money. In cases where this strategy succeeds, it can be positive in the sense that a strong dependency on state money is avoided. But other problems may arise. For instance, it can be very time consuming and difficult to obtain money from different sources. What is more, in many cases different sources of money are related to different time cycles and different evaluation criteria. Negotiating with all potential money-donating actors at the same time can help to create more synchronised calendars.

Applying for money in many cases means that criteria, mostly established by central government, have to be met. There is a danger that complying with these criteria may give some potentially involved actors the impression that the UDF actually will be implemented. At least, they may become convinced that their district or neighbourhood needs and deserves some help. If in such a case a UDF is not financed and thus not implemented, the failed application may make things worse than they were. Take the participation of residents. If acceptance of a project depends on proving that local people are already involved and if that implies that they must be addressed by local planners and policy-makers, rising expectations would be frustrated if the application for funding the UDF is turned down.

The overall budget of big cities are of a scale that completely dwarfs the budget for even the most ambitious UDF. Moreover, a large part of municipal budgets is frozen, so that there is little freedom to re-allocate funds in the short term. It can therefore be extremely difficult to squeeze out a necessary budget for a UDF, no matter how small the amount of money requested. However, even the modest financial means available for UDF's – a drop in the ocean – may have highly visible effects. Returning to our argument, the few per cent that a UDFs budget represents might be comparable to the 'degree of freedom' that the local government has for its regular budget. One of the main features of a UDF therefore should be publicising the fact that something new is happening in the targeted district or neighbourhood.

5. Organisation

When conceiving and implementing a UDF, two basic questions require an answer: how to organise the programme and how to enhance commitment of those involved. A contract or covenant – we use the terms as synonyms – is a very useful tool in this case. A contract or covenant, then, is a printed document that has been agreed upon and signed by actors participating in a partnership or co-operation and that structures the decision-making process, bureaucratic procedures and expected inputs and outputs through formal and informal rules.

Contracts can enhance clarity for all parties because agreements are made about targets, how to reach them, and what contribution is expected of every partner. Clear rules that are agreed upon by all partners can:

- enhance efficiency and predictability of decision-making processes, which enhances mutual trust between the partners and fosters successful co-operation and efficiency of the partnership;
- increase the transparency of decision-making processes, which makes it easier for weaker partners (residents, and other partners with few or no own resources) to get and maintain access to the decision-making processes;
- enhance the controlling function of the democratically elected council.

The above implies that a series of choices has to be made in designing a contract or covenant. In actual practice, these choices do vary to a large extent and so do the specific forms of contracts found in different cities and countries. To a large extent, different practices depend on the specific institutional context and culture of a specific country. However, differences in contracts or covenants can also result from differences in focus of programmes or projects to which the contract or covenant relates.

6. Evaluation

Evaluation should be part of any UDF. In fact, almost all UDFs we surveyed include the idea or promise of evaluation, although this requirement differs in scope and precision. Politicians, administrators, and professionals should, of course, be accountable for the way in which they spend taxpayers' money. However, as desirable as an evaluation may be from this point of view, the task of evaluation is both complex and difficult. Three problems impede a strict evaluation. First, in the perception of actors evaluation often diverts time and energy from their primary activities. Therefore, there is an almost natural reluctance when it comes to evaluating one's own performance. Second, the outcomes of the evaluation are unpredictable because of the potential arbitrariness of the criteria used and the resulting possibility of not doing justice to the work done by the actors. Third, when criteria are clear and undisputed, negative outcomes are possible, which will have negative consequences for the actors who are deemed responsible.

The first problem can be annoying, but indicates at least a dedication of the actors involved to their main tasks. The more UDFs have the character of a contract, the less frequently this problem will arise, at least when there are negative sanctions for failing to live up to agreed conditions. More serious are the two other problems, which we will discuss in more detail in the next section. In the final section we will outline some solutions, illustrated by examples of good practice.

7. Coordination

Procurement approaches should be adjusted to reflect the difficulties of securing fully committed funding at the bid stage. Traditionally competitive bidding process required each consortium to provide committed funding for their bid. This appeared to be a reasonable requirement at the time of high supply of senior debt. However, in current market conditions such requirement appears unrealistic. Therefore, in the short term, many public sector promoters have to adjust their procurement approaches to reflect the difficulties of securing fully committed funding at the bid stage. The authorities should consider, for example, some form of funding competition at the preferred bidder stage.

Private sector should maintain activities in this key sector by retaining the necessary resources and know-how. Some large banks which have been particularly badly hit by the crisis have pulled out of or significantly scaled down their PPP practice. Some have engaged in major strategic revisions and announced their "withdrawal" from the project finance market altogether. Others continue to show commitment to the infrastructure market, but are suffering from liquidity problems. Mid to small size players have all but disappeared. This has further dried up the market, as these banks formed the bulk of the syndication and secondary markets. There is evidence that new (small) players may be attracted by the "void" created, but this remains a marginal phenomenon at best.

Capital markets should be developed overall to cover this important asset class throughout EU. There appears to be a widespread agreement that the fundamentals are strongly in favour of financing PPPs through the capital markets (PPPs provide long term fixed income to match the long term fixed liabilities of many institutional investors). Historically, there appears to have been considerable investor appetite for infrastructure bonds in selected markets (e.g. the UK) although less so in some other parts of the EU. Currently, there are number of market and structural issues in the way of a revival of this market. These include (i) investor reluctance to invest in unwrapped (or non guaranteed) bonds, (ii) investor perceptions of the lack of liquidity of a potential infrastructure bond market and (iii) investors' lack of know-how to evaluate PPP risks. Until each of these issues can be addressed, a significant step up in volume of infrastructure bond issues appears unlikely.

Actions will be required by both the public and private sector to re-animate the bond market. The role that could be played by EIB and the Commission is dealt with below (and elsewhere in this paper). But governments may also have a role, particularly in respect of promoting liquidity, and the private sector (investors, underwriters, issuers) will need to demonstrate willingness to play their respective roles. For example, the institutions may need to commit to developing their capacity to assess risk in PPP transactions – a function previously delegated to monoline insurers.

The Community institutions – particularly the Commission and EIB are expected to step up activities and provide additions to the already existing tool-kit. The following additions in the tool kit (subject to the necessary approvals) offered by EIB and the Commission have been designed as to give a prompt and effective impetus in the field projects financing.

III. JESSICA

1. Description

JESSICA stands for Joint Support for Sustainable investment in City Areas. "This initiative is being developed by the European Commission and the European Investment Bank (EIB), in collaboration with the Council of Europe Development Bank (CEB) in order to promote sustainable investment, growth and jobs in urban areas.

JESSICA aims to respond to the request by several Member States and the European Parliament to give special attention to the need for urban regeneration and urban investments, and is based on the scarcity of investment funds to finance integrated urban renewal and regeneration projects in pursuit of more sustainable urban communities.

Under new procedures, Member States are being given the option of using some of their EU grant funding, their so-called Structural Funds, to make repayable investments in projects forming part of relevant plans defined by municipalities, in accordance with Regulation (EC) No 1080/2006 and the specific urban, administrative and legal rules in national, regional local context (Integrated Plans for Sustainable Urban Development or Integrated Plans).. These investments, which may take the form of equity, loans and/or guarantees, are delivered to projects via Urban Development Funds and, if required Holding Funds.

JESSICA has therefore been launched with a view to provide new opportunities for Managing Authorities responsible for the current generation of cohesion policy programmes by:

♦ raising productivity of SF/public funds by making use of innovative and revolving financial instruments in the urban sector (complementary to grant financing);

♦ ensuring long-term sustainability through the revolving character of the Structural Funds contribution to UDF specialising in investing in Urban Projects;

♦ creating stronger incentives for successful implementation by beneficiaries, by combining loans and other financial instruments;

♦ leveraging additional resources for Public-Private Partnership (PPP) and other projects for urban development with a focus on sustainability/recyclability in the regions of the EU;

♦ contributing financial and managerial expertise from specialist institutions such as EIB, CEB, other International Financial Institutions (IFIs) and other financial institutions.

2. JESSICA Instruments

According to Reg. No. 1083/2006, art. 44, as part of an Operational Programme (OP), the Structural Funds may finance expenditure in respect of an operation comprising contributions to support financial engineering instruments for Urban Development Funds (UDFs), that is, funds investing in Public-Private Partnerships (PPP) and other projects included in an Integrated Plan For Sustainable Urban Development (IPSUD).

In general terms, the Community regulations define the JESSICA instruments as follows:

- Urban Development Funds (UDFs): they invest in public-private partnerships and other projects included in an integrated plan for sustainable urban development (Article 46 of Commission Regulation No 1828/2006);

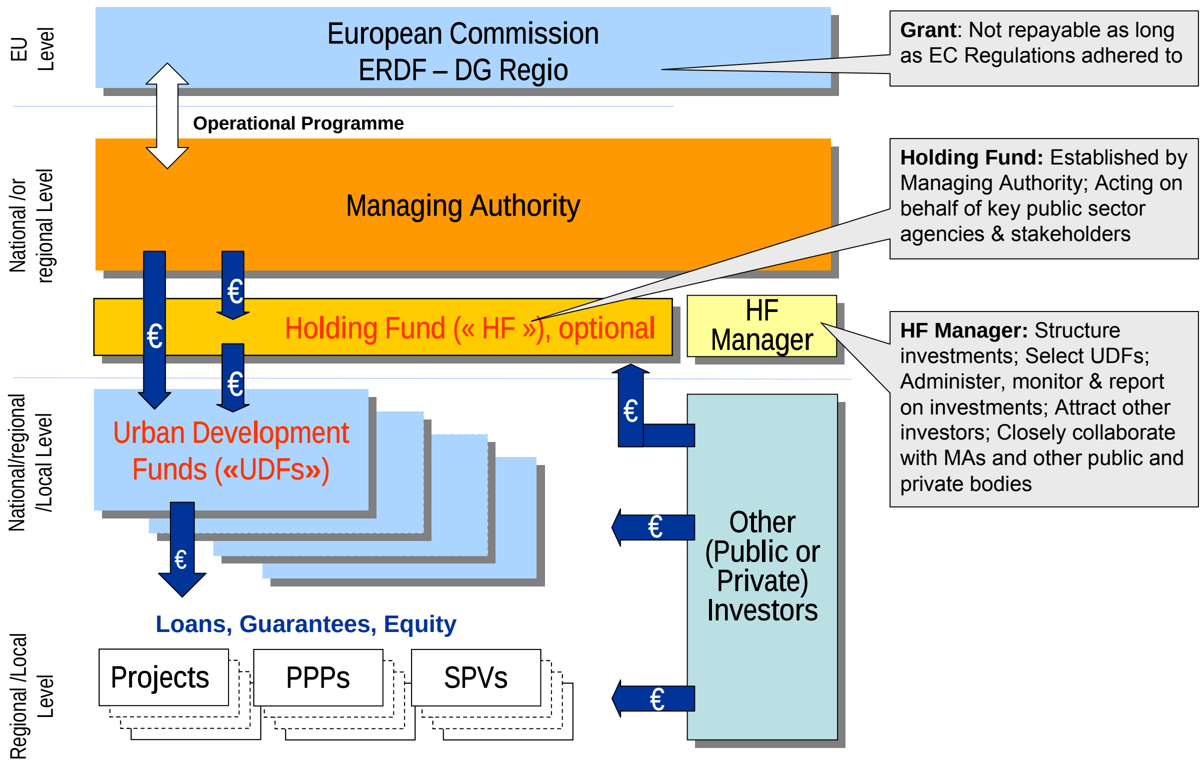
- Holding Funds (HF): they are established, as an option, to invest in a variety of Urban Development Funds (Article 45 of Commission Regulation No 1828/2006);

- Urban Projects (public private partnerships or other projects included in an Integrated Plan for Sustainable Urban Development): they will consist not only in alleviation of deprivation, but in supporting measures that enhance wider competitiveness and employment objectives by investing in urban assets. These latter will promote, for instance, high-technology clusters, universities and the knowledge industry, tourism and other service sectors.

3. JESSICA Structure

JESSICA is a Joint European Initiative to "conceptually" support, study and divulgate "knowledge" of "comparative experiences" and "best practices", for structuring the financing of Urban Developments Funds and establishing Sustainable Investment in City Areas.

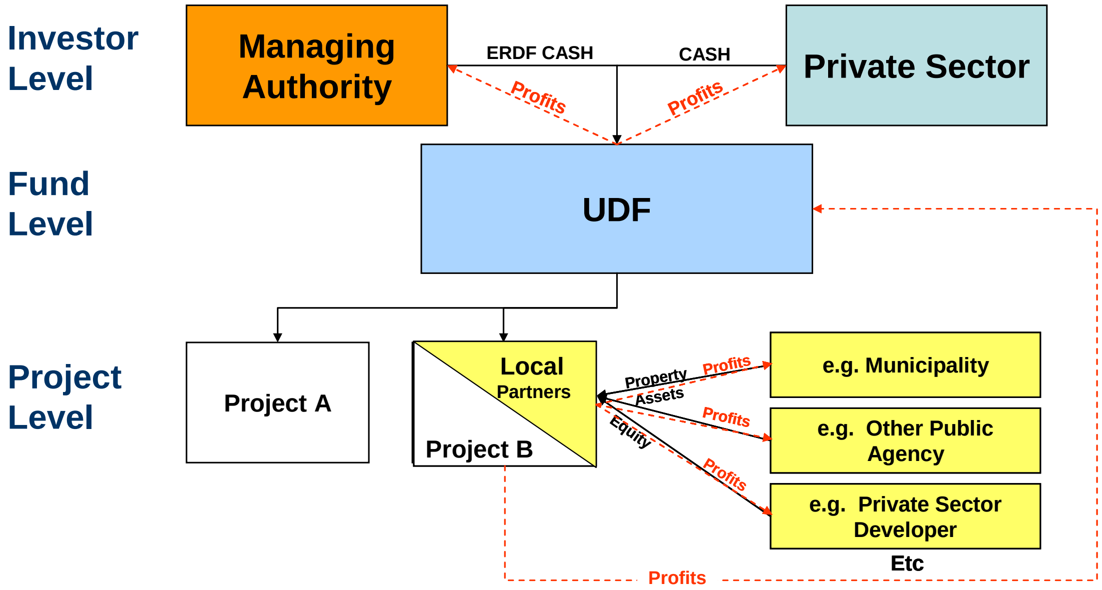
JESSICA COMPONENTS - OVERVIEW



By doing this, JESSICA is also giving some incentive for using EU Structural Funds. It is based on an approach which is looking for the development of financial instruments. At the end of the game, JESSICA is an important EU Initiative to support the application of "financial engineering" – based on both "equity" and "debt" instruments – and EU Structural Funds, to restore city area's by looking for the best balance between public and private interests.

As for the financial instruments, there are two types that can be applied. The first one is a Real Investment Fund – of the type of a Development Fund – which is a highly regulated financial instrument that belongs – in most advanced countries – to a mature market of financial real estate savings and retail products. It has an equity component (30-40%) and a debt component (60-70%). In the equity component there is a panel of investors – which includes state, public and authorities and private players - and in the debt components there is a club of banks that believe in the success of the venture. The second instrument is a Holding Fund. A Holding Fund is a more simple form to finance a Urban Development Fund by straight emission of debt.

JESSICA COMPONENTS – POSSIBLE OPERATION



There is also a great need to reinforce the social and cultural cohesion and the urban infrastructural base of the EU country partners. This is not an easy task but it is highly important and it can be achieved. There is need of strong social and cultural ideals and of proper achievement of infrastructural goals. Jobs and well being need to be created. But financial expertise and some "non *a priori* ideological bias" against commercial and private interest and development of free enterprise are also needed. In contrast, given the public financial situation dominating in the majority of EU country members, it will not be possible to reach the target with public money alone.

4. Urban Development Fund: definition and models

An Urban Development Fund is - first of all – an European supported instrument to restore and create, a socially friendly and sustainable environment, in areas of the European Community which badly needs it – or have great potentials to develop new creative neighborhoods, especially in historical centers or in dismissed industrial area located in good spots of the urban areas. It is also a way to create urban infrastructures by using areas underdeveloped, but with high potentials for the creation of public and private spaces.

To create and develop an Urban Development Funds, you need much expertise. Financial expertise; urban expertise; social and commercial expertise. We also need architectures, engineering and social operators, all working together, to make a better "Community". To restore and restructure a city area which needs to be restored – in the present times – you need sophisticated financial engineering instruments and skills. To be eligible for Jessica funding, the UDF will need to demonstrate, among other things, sufficient competence and independence of management; a comprehensive business plan and budgets for undertaking qualifying projects; as well as sound financial backing.

4.1 The Basic Models for UDFs

Under the Community's "urban regeneration" policy for revitalising critical urban and suburban areas, the initiative that goes by the name of JESSICA is aimed at promoting the creation of Urban Development Funds (UDFs), that is, "funds investing in public-private partnerships and other projects included in an integrated plan for sustainable urban development". The resources come from the financial assets of individual Managing Authorities (MAs), which can use part of their funding from the ERDF and the ESF in this way. The aim is to establish and operate a revolving financing mechanism that makes it possible to implement projects involving public and private actors.

The main innovation therefore consists in the replacement of grants by revolving financial mechanisms, essentially equity, guarantees and loans. Repaid credits can be reinvested via the UDFs or returned to the MA to support other urban projects, including those financed by means of conventional grants. The UDF does not have a privileged legal form under primary Community legislation, but it must be an independent entity or a separately managed block of finance within a financial institution and it can invest directly in Public-Private Partnerships (PPPs) or in "other" urban projects eligible for financing by means of equity, loans or guarantees.

The MAs could decide to invest directly in UDFs or, given the complexity of managing financial instruments other than grants, could deal with the UDFs via Holding Funds. The principle underlying such instruments is to develop urban regeneration projects by forming a long-term fund that is economically viable thanks to the combination of various elements, such as contributions in kind of public property with high development potential, contributions of public property producing income, the construction of infrastructure producing cash flow and in turn using public funds, energy, transport, etc. In addition, it is plausible for the UDF to derive part of its income from public works and part from commercial projects. For this to function, it is beneficial to involve long-term ethical and/or public-sector investors as well as private-sector investors earning market-related returns.

The UDF is designed to support the realisation of projects to do with urban development in a particular area or areas or on the territorial scale best suited to attaining the city's sustainable development objectives. The goals may be of various kinds; by way of example, they may relate to different objects, separately or in combination, such as basic public infrastructure, parks, public spaces, transport and sustainable mobility systems, office and commercial premises, university and scientific research premises, equipment, leisure facilities, measures for protection of the land and prevention of natural risks, and more besides. They may also relate, again by way of example, to various kinds of measure, such as modification, conversion and exploitation/management of premises vacated by firms, scientific and technological activities, research and development, industrial archaeology, redundant barracks; improvements to transport systems, networks in general and local infrastructure, measures to ensure better liveability and better energy and environmental compatibility; measures to support incubators of technology firms.

In some cases measures involving objects situated away from the main site of interest have also been approved where their contribution may benefit implementation of the integrated programme of urban regeneration.

4.2 The Equity Model

Under Article 46(2) of Council Regulation (EC) No 1828/2006, UDFs may invest by means of equity, loans and guarantees and urban projects receiving grant assistance from an operational programme may also be supported by UDFs. The two possible forms of UDF that can be created stem from the ability/willingness to involve the private financial sector in the relevant market. The two basic models are: the equity or universal model, and the non-equity model, or simplified rotating loan fund.

The equity model satisfies the requirement of investors in the UDF for a minimum guaranteed medium-to-long-term return on their investment. By contrast, as pointed out above, the non-equity model is suitable in situations where the financial market is underdeveloped and public resources are sufficient and need no further leverage (particularly for underutilised areas). From the point of view of economic and financial viability, the UDF must be sufficiently profitable to permit repayment and re-utilisation of the investment (non-equity fund) or to remunerate the equity and repay the debt (equity fund).

In the majority of cases this model entails a shareholding in the capital of public-private partnerships (PPPs). The fund will have to manage its shareholdings in vehicle companies formed specifically to carry out and manage the project. The instrument best suited to this type of fund is undoubtedly a regulated entity, the most appropriate form is the closed-end fund, and in particular real estate funds. The use of a real estate investment fund as a UDF.

From the technical point of view, the use of a real estate investment fund as an urban development fund certainly appears possible, offering considerable flexibility as regards both the investment needs (through the use of umbrella funds, for example) and the possibility of involving investors with different investment objectives. The closed-end umbrella real estate fund will be established by an asset management company, which will participate in calls for tender issued by authorities managing structural funds (regional authorities) in order to obtain regional co-financing, which could consist in non-interest-bearing revolving funds.

4.3 The Non-equity Model

Without any doubt, this is the simplest model, based essentially on revolving funds of concession loans in the form of a separate block of capital within a financial institution, selected on the basis of open competition. A UDF may decide to invest its capital exclusively in activities such as the funding of PPPs, formed as vehicles for investment in Integrated Plans for Urban Development. The fund, which may also be financed exclusively by the region, takes the form of a revolving fund of concession loans remunerated at a weighted concession interest rate.

The other fund units may be subscribed by the financial institution responsible for management or by other institutions at market rates. The rate on the fund's loans to projects would be the weighted average of the rates on the resources it raises. The financial institution managing the fund must remain independent and autonomous during the assessment of creditworthiness, subject to the general eligibility criteria set out in the funding agreement signed with the regional authorities.

5. HF Option

According to Reg. N. 1083/2006, art. 44, if JESSICA instruments are organised through Holding Funds, that is, funds set up to invest in UDFs, the Member State (MS) or the Managing Authority (MA) shall implement them through one or more of the following forms:

(a) the award of a public contract in accordance with applicable public procurement law;

(b) in other cases, where the agreement is not a public service contract within the meaning of public procurement law, the award of a grant, defined for this purpose as a direct financial contribution by way of a donation:

(i) to the EIB or to the EIF; or

(ii) to a financial institution without a call for proposal, if this is pursuant to a national law compatible with the Treaty.

Member States and Managing Authorities may select a Holding Fund by awarding a grant to the EIB and the EIF or to financial institutions pursuant to their national laws in compliance with the Treaty.

Alternatively, Member States and Managing Authorities may select a HF fund by awarding a public service contract in compliance with public procurement law. Furthermore, MA can set up directly UDFs without HF.

Commission underlines that the ability of Member States and Managing Authorities to select a suitable holding fund is essential for operations to promote sustainable investment in urban projects under the JESSICA initiative.

5.1 EIB as fund manager of the HF

According to Reg. N. 1083/2006, art. 36, the EIB may participate, in accordance, in the programming of assistance of the Funds. In particular, the EIB may, at the request of Member States, participate in the preparation of national strategic reference frameworks and operational programmes, as well as in activities relating to the preparation of projects, in particular major projects, the arrangement of finance, and public-private partnerships.

In order to ensure that the power of MA for HF selection is not compromised and to give an *effet utile* to Article 44(b), the Commission encourages the Member States and Managing Authorities to select a holding fund by awarding a grant to the EIB, the EIF or to financial institutions pursuant to their national laws in compliance with the Treaty.

The EIB may act as HF for a start-up period (3 years) in order to facilitate the launch of JESSICA instruments and permit a gradual transfer of know-how to the MA and regional bodies, with the possibility of winding up the HF once its resources have been distributed to UDFs.

In the case in which the MA decides to appoint the EIB as fund manager for the Holding Fund (HF), a **Funding Agreement** should be signed, which requires the EIB to:

- hold the assets of the HF and carry out temporary cash management of funds not yet invested in UDFs;
- assist MA in procuring UDFs through a transparent and competitive call for expressions of interest process (EoI);
- review the appropriate UDF structure put forward by UDF managers (either independent legal entities or separate blocks of finance within financial institutions) and the management thereof;
- invest, on behalf of the HF, in UDFs (via Operational Agreements). These Agreements will also specify how the UDFs will invest in Urban Projects;
- monitor and report on the actions of the UDFs and their investments in underlying Urban Projects.

According to Reg. No. 1828, art. 43, <u>management costs</u> may not exceed, on a yearly average, for the duration of the assistance, any of the following thresholds, unless a higher percentage proves to be necessary after a competitive tender:

(a) 2% of the capital contributed from the operational programme to holding funds, or of the capital contributed from the operational programme or holding fund to the guarantee funds;

(b) 3% of the capital contributed from the operational programme or the holding fund to the financial engineering instrument in all other cases, with the exception of micro-credit instruments directed at micro-enterprises.

According to EU, Jessica Program such a Holding Fund can be less costly if it is handled by the EIB and, in that case, it will be included in the Structural Funds accounts – as long as the funds are "rolling over" from one project to another after a reasonable tame spam. This type of arrangement is better fitted for southern EuroMed countries, which have a less developed real estate financial environment and culture.

6. Urban Projects

6.1 Type of Operations

The criteria for determining whether investments provided under Operational Programmes are eligible for JESSICA instruments are the same as those for the use of Structural Funds. They must therefore comply with Community legislation and take account of any specific national restrictions. For example, in Italy and the EU-15 the residential housing sector is specifically considered ineligible under Community regulations. By way of illustration, measures may be taken in the following sectors:

a) urban infrastructure: transport, water resources/waste water treatment, energy, etc.;

b) historical or cultural heritage, for tourist purposes or other sustainable uses;

c) conversion of abandoned industrial sites, including reclamation and decontamination work;

d) office space for small and medium-sized enterprises and for firms in sectors such as information technology and R&D;

e) university premises, including facilities for medical, biotechnology and other specialist activities;

f) improvements in energy efficiency.

Expenditure items that are not eligible may, however, be included in a broader, multisectoral urban project, under particular conditions. The Urban Development Fund is per se the main multiplier of public sector resources invested in urban regeneration projects, especially if the authorities have opted for the fund model based on venture capital. Under Community regulations, any further eligibility requirements for the use of the resources of Operational Programmes are left to the Member States, while social housing is eligible for funding (subject to certain conditions) only in the twelve states that joined the Union after May 2004.

6.2 Assessment of Projects "Jessicability"

Identification of the "Jessicability" criteria of an urban development project consists in defining the features and characteristics that make a project eligible for financing under the JESSICA system. The foundations of a system for assessing the Jessicability of projects consist in the features and demarcation criteria of JESSICA by comparison with other methods of funding similar projects.

The strategic focus of JESSICA is to concentrate on financing development projects which have the following characteristics:

- Mediun/high risk profile/uncertainty;
- Market demand not established;
- Long term financing needs (loan/equity); enhancement/guarantees needed;
- Project revenues that do not meet completely market requirements;
- Some potential for revenue capture/cross subsidising.

The main characteristics are described below:

(1) JESSICA is an instrument for promoting and financing integrated projects as part of a wider strategy for sustainable development. Under Community regulations, the projects that can be financed in this way must be included in an "integrated plan for sustainable urban development". In general, this means a system of interconnected measures designed to produce a permanent improvement in the economic, physical, social and environmental conditions of a city or quarter, but the regulations do not lay down mechanisms and criteria for drawing up or identifying such plans. The mechanisms and criteria are left to the discretion of the Member States and/or Managing Authorities. Within such a plan, individual projects are examined, evaluated and implemented according to the interconnection between them so as to produce synergies such that the results of the plan in its entirety are greater than the sum of those of the component projects.

(2) The most significant innovation under the JESSICA system is that funding is repayable, thus allowing for the invested capital to be reimbursed as well as remunerated. Projects must meet general criteria of economic and financial sustainability, that is to say the ability, on the basis of the project's cash flow, to repay and remunerate the debt and venture capital in accordance with the various expectations of investors. The Community regulations do not, however, state clearly the required level of remuneration: here too, the Member States and the Managing Authorities have considerable latitude to interpret the

criterion of "repayability". Support for an urban development project therefore falls outside the scope of grants, acquiring characteristics more similar to those of long-term investment.

An Urban Development Fund is based on an economic balance among different "objects", such as:

- Public buildings, green areas and spaces that can offer public spaces of general interest;
- Public/private buildings, areas and spaces which can have a commercial interest;
- Urban infrastructures which produce "cash flow" that can pay – or partly pay – their construction;
- Urban infrastructures that have a cost, but do have also strong "positive externalities" for the area and for the community as a whole.

If a proper "balance" among all these "objects" is found, then the whole Project is financially sound, and can be embedded into regulated "financial engineering" instruments such as the real estate development urban funds. In order to be "financially sound" the Project has to be capable – during its life-time, on average 7 -14 yrs – to produce sufficient "cash flow" to pay the interest of the debt, and, at the same time, the "upside" of the operation should be transferred to the shareholders – over the years – in the form of an the up-side of the operation which materialize as capital increase of the equity or dividends or by obtaining at no cost public and general interest objectives.

So the all operation has to be a combination of cash flow yield, capital increase, and an appropriate balance of private and public interests. This is not easy, but there are some very successful examples around Europe where this balance was indeed found. So we can try to export these "best practices" in other areas of the EU country members.

(3) JESSICA provides an innovative instrument for funding and governing urban renewal projects, in order to make use of Urban Development Funds. As well as being a receptacle for financial resources of both public and private origin, a UDF also facilitates the development of synergies in the management of urban regeneration projects, in that potentially it makes it possible:

a) to transfer, at minimum cost, best practice between the various projects financed by the Fund;

b) to define minimum optimum standards for carrying out measures (rules for the investment project);

c) to establish a system for content, methods and instruments to be transferred to the local territory;

d) to achieve efficiency, through the use of specialised managers directly responsible for the results of their actions, and transparency, owing to the governance and supervision criteria to which managers are normally subject in the management of projects.

The investments financed under a JESSICA project can have a significant leverage effect, especially with regard to the resources invested directly by the public authorities in UDFs. A first leverage factor stems from the funding of projects via public-private partnerships, in which, other conditions being equal, an effective allocation of risks between the public and private sectors may lead to a reduction in the resources invested by the public authorities. A second leverage factor, which is also typical of partnership projects, consists in the use of debt capital to finance the project. The ability to service the debt is related directly to the project's cash flow, which guarantees its economic and financial sustainability.

6.3 EIB preliminary financial modeling tool ("JESSICAmetrics")

In the framework of EIB JESSICA Task Force Evaluation Studies, a preliminary financial modeling tool ("JESSICAmetrics") has been elaborated.

The template provides highly simplified templates to summarise the key project data (costs, revenues, financial structure), so that one can easily input them into its financial model. It requires estimates of overall investment costs, yearly operating costs and revenues. The simplified structure foresees a construction period of three years, constant operating costs and revenues per year. The template is a way to assemble the basic data on costs, revenues and financial structure necessary to run the financial model on available project data.

Some example of these financial projections are presented in the Evaluation Studies of Porto and Andalucia (Part B, V Case Studies) as well as in Brasov Contribution (Part B, XII Brasov).

PART B

COMPARATIVE EXPERIENCES

IV. JESSICA and UDFs

1. Introduction

The Commission Regulations do not specify structure, functions, and legal constraints in order to establish UDFs. No UDF is actually set up since now.

In order to provide a picture on the ongoing implementation of UDFs, this section offers an overview on different models of UDFs currently developed in different EU countries.

In the following pages we propose to summarize the theoretical application and the terms of implementation of UDFs among Member States, by analysing:

- the Evaluation Studies leaded by the EIB JESSICA Task Force in Portugal and Andalucia, with a theoretical application of HF/UDFs;
- the case of Brandenburg as UDFs without HF (the only existing one at the moment);
- a synthesis of the call for EoI launched by EIB for UDFs selection, in which we can find useful suggestions to develop UDF concepts.

V. CASE STUDIES: PORTO, ANDALUCIA, BRANDENBURG

1. Porto

The present Evaluation Study has been finalized by EIB JESSICA Task Force in June 2009 and is focused on the analyses of cases provided by the Portuguese Government. It proposes an exercise consisting in a theoretical applications of JESSICA in Portugal to different types of projects, hypothetical but based on the reality.

The base case project is an integrated urban development plan divided in intervention areas and addressed to the city's historical centre of Porto.[1] It consists, particularly, in the rehabilitation of an intervention area but could be replicated also in other areas, by involving financial institutions, public entities, owners and construction companies. The project involves buildings rehabilitation (including energy efficiency and façades) either for sale or to lease, parking lot and public spaces recovery.

Following the base case, other three types of project has been developed. Each project type presents particular features related to:

- type of project and intervention area;
- equity partner;
- IRR, payback, investment period;
- investment amount (total and per activity);

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1 http://www.eib.org/attachments/portugal-evaluation-study.pdf

- revenue-generating operations;
- financial scheme (mix from equity/loan/grant).

1.1 JESSICA intervention

For each case, it is analysed how “JESSICA funds”[2] can be used, as debt, equity or loans. In the case of JESSICA-loan, the interest rate is that of a commercial loan rate.

1.2 Stakeholders perspectives

Stakeholders perspectives (private partners, JESSICA, Municipality/SRU, Financial Institutions, others) and their interest in participating in the project has been measured in terms of risk based on :

- IRR (Internal Rate of Return)
- Payback period.

1.3 The different applications at a glance

The Evaluation Study presents the result obtained for each project and for each stakeholders in specific tables[3].

Below (in the following pages) we propose a comparative analysis of these results:

[2] This is the terminology used in the Evaluation study. It means the resources of the ERDF Operational Programme (ERDF plus co-financing resource) to be trasferred in the UDF.

[3] Base Case, pag. 94 - Type 1, pag. 103 - Type 2, pag. 108 - Type 3, pag. 113

Stakeholders perspectives

	Loan (L)	Equity (E)	Equity+Loan (E/L)
Base Case, Type 1, Type 2, Type 3	Repayment of JESSICA is only considered after the repayment of the commercial loan Dividends to shareholders can be considered before the repayment of the JESSICA loan	JESSICA enters as equity, thus reducing proportionally the investment of all other partners	JESSICA enters as equity and loan, thus reducing proportionally the investment of all other partners Repayment of JESSICA is only considered after the repayment of the commercial loan Dividends to shareholders can be considered before the repayment of the JESSICA loan.

Projects perspectives

	General	Loan (L)	Equity (E)	Guarantees
Base Case	Low IRR and large payback period, due to the public spaces rehabilitation investment that was not compensated by real estate gains and with rents. No grants were considered for this case. Without JESSICA, lack of private entities interest and difficulties to assure debt. Public intervention needed for realization of the intervention.	JESSICA loan with the same interest rate as the commercial loan but more flexible (payment period terms and the possibility of dividends before full JESSICA's loan reimbursement). This allows the increase of private partner's IRR and reduction of its payback. Due to the project's reduced IRR, there can be difficulties to access commercial loan. To solve this issue, an additional solution besides paying first the commercial loan, could be to establish different levels of seniority between JESSICA loan (lower seniority) and commercial loan. Other solution could be guarantees to be granted.	Due to the higher weight of the construction margin in the total gain, private partner's IRR increase. Due to the low return obtained by the equity partners of the project, JESSICA return is lower than in the previous case and its payback enlarged. Nevertheless, in this scenario, the difficulties in assuring a commercial loan are not solved.	JESSICA's guarantee will probably not change significantly the financial costs compared with the Base Case. Although the commercial interest rate might suffer a decrease, there will be the fee for the guarantee. With such guarantee, a commercial loan is more suitable to be obtained (the credit risk is transferred to JESSICA at the expense of the commission fee). However, the private partners interest is yet questionable, due to the low IRR and long period payback (assuming that the guarantees cover the debt amount). **Equity+Loan (E/L)** The mix of JESSICA's intervention appears to be the best scenario to allow project implementation: financial institution perceives lower risk due to JESSICA loan characteristics and private partner return increased.

	General	Loan (L)	Equity (E)	Equity+Loan (E/L)
Type 1	Main issue: the risk perception of financial institutions (IRR, potential delays and administrative constraints during implementation), expected difficulties to obtain the requiring funding. Regarding property owners, a part from a small negative IRR, this situation is preferable than the current one, where they see their property degradating and generating cash.	JESSICA participation with a loan does not affect the IRR of the other stakeholders on the project (either as equity or debt,) because the payment of debt and dividends continue to occur only in the last year of projections. Nevertheless, when compared to the case without JESSICA, the key advantage for project implementation relies in the reduction of the value at risk of financial institutions.	JESSICA entrance as equity allows an increase on the IRR of all stakeholders, not solving problem who prevents project implementation.	Although better than scenario E, for JESSICA this scenario is worst than scenario L. This scenario does not seems to compromise other stakeholders interest on the project.
Type 2	Low IRR and large payback period, due to the public spaces rehabilitation investment that was not compensated by real estate gains and with rents. No grants were considered for this case. Without JESSICA, lack of private entities interest and difficulties to assure debt. Public intervention needed for realization of the intervention.	The JESSICA participation in the project through a more flexible loan (with wider reimbursement period and the possibility to pay dividends before the maturity date) allows the reduction of the risk for the financial institution.	The JESSICA participation in the project results in the reduction of the investment required for the SRU, however, the difficulty in raising debt is not solved due to project risk perceived by financial institutions.	Same advantages of variant loan, and the financial institution obtains a good IRR and payback period. For JESSICA, IRR is lower and payback larger than in scenario L. Regarding the financial institution, given the risk and reduction in loan amount, there is a greater interest in participating in the project than in case base or scenario L.

	General	Loan (L)	Equity (E)	Equity+Loan (E/L)
Type 3	Low IRR and a wide payback period mainly resulting from the investment in public spaces regeneration that is not compensated by the gains with the parking lot and the shuttle services. A 65% ERDF grant was considered regarding eligible investments. Without JESSICA, the project might not be developed due to the lack of interest from the private partners and due to the difficulty in raising debt resulting from the project's low IRR and lack of guarantees. The public interest is in the urban regeneration and the creation of additional mobility solutions.	The JESSICA participation in the project through a more flexible loan (wider reimbursement period and possibility to pay dividends before the maturity date) allows the reduction of the risk and the payback for the financial institution, giving JESSICA a positive IRR.	With the reduction in the total investment requirement the private partner is able to obtain an higher IRR and the reduction of the payback period in one year. However, the difficulty in raising debt is not solved due to project risk. The JESSICA funds have a large payback period and the IRR is relatively low.	In this scenario the private partner benefits from a higher IRR than in 3 L, but the amount of JESSICA funds applied is also higher. Obtaining commercial loan is facilitated by the use of the JESSICA loan.

1.4 Equity, Loan or Guarantees?

After the analysis of each possible financing structure for each of the project types, given the market and stakeholders restrictions, the chosen JESSICA solutions for each project could be:

Base Case → Equity + Loan

Type 1 → Loan

Type 2 → Loan

Type 3 → Equity + Loan

From a project perspective, all JESSICA participation models are possible and might be desirable according to the specific project needs and restrictions.

However, some considerations could be expressed in these terms:

- the solution of participating as <u>equity</u> is less likely to be interesting if capital structure is maintained, since it does not solve the debt raising difficulties resulting from low IRR and high risk. JESSICA equity model is not sufficient to guarantee private partner involvement. The financial model might only be applicable in conjunction with the concession of a JESSICA loan as a mix between equity and loan;

- JESSICA participation with only a <u>guarantee</u> might be insufficient. Besides the fact that on a low IRR scenario there is a significant probability of execution of the guarantees by financial institutions, which may result in JESSICA's quick funding deterioration, the option for guarantees does not solve the necessity to optimize the partners return (namely private partners).

- the use of <u>debt</u>, alone or together with equity, with a flexible reimbursement profile and/or subordinated to commercial debt, might prove to be the best suited solution to the characteristics and financial constrains of urban regeneration projects, because it solves more easily the difficulties in obtaining commercial loans or obtaining private entities involvement caused by the relatively low profitability of the urban regeneration projects. Morevoer, JESSICA loan participation tends to solve Financial Institutions involvement issues.

Nevertheless, at project level, the selection of the financial instrument to adopt (equity, debt, guarantees) and the definition of the amount of JESSICA funds to invest (as well as Debt-to-Equity structure) should be the result of a case-driven analyses.

1.5 UDFs: how many, which model?

Given these selections and assumptions, several types of UDFs might be created in order to participate in these types of Project:

- UDF investing in long / short payback projects;

- UDF investing in projects using the form of a Real Estate Investment Fund;

- UDF geographically specialized;

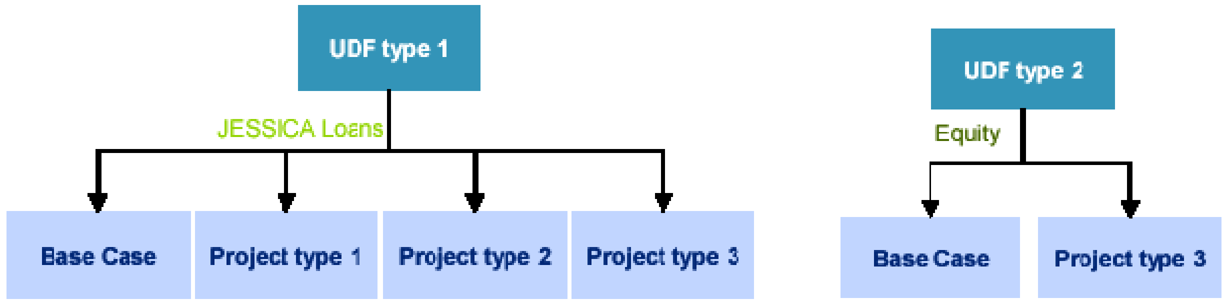
etc.

For the purpose of this analysis, in the Evaluation Study it were considered two types of UDFs:

- UDF type 1 investing solely through loans;

- UDF type 2 investing solely through equity.

This exercise is purely an attempt to show the JESSICA flexibility in terms of UDFs with different configurations and corresponding results.



<u>UDF Type 1 assumptions</u>

UDF Type 1 is specialized in supplying projects with loans, therefore its investment selections are:

- Base case (with a duration of 20 years);

- Project type 1 (with a duration of 5 years);
- Project type 2 (with a duration of 10 years);
- Project type 3 (with a duration of 20 years).

These investments are performed by the UDF 3 times representing investment in other similar projects and adding dimension to the UDF.

JESSICA funding for each Project is only through debt, although for some cases the Best Scenario identified includes JESSICA equity (implying that in parallel to this UDF type, another UDF type, which invests only using equity, is needed).

<u>UDF Type 2 assumptions</u>

UDF Type 2 is specialized in supplying projects with equity, therefore its investment selections are:

- Base case (with a duration of 20 years);
- Project type 3 (with a duration of 20 years).

These investments are performed by the UDF 8 times representing investment in other similar projects and adding dimension to the UDF.

JESSICA funding for each Project is only through equity, although for some cases the Best Scenario identified includes JESSICA loans (implying that in parallel to this UDF Type, another UDF Type investing only by using debt is needed).

<u>UDF Type 1 and UDF Type 2 common assumptions</u>

The UDF is solely funded by the JESSICA HF (100%).

The Financial Institution(s):

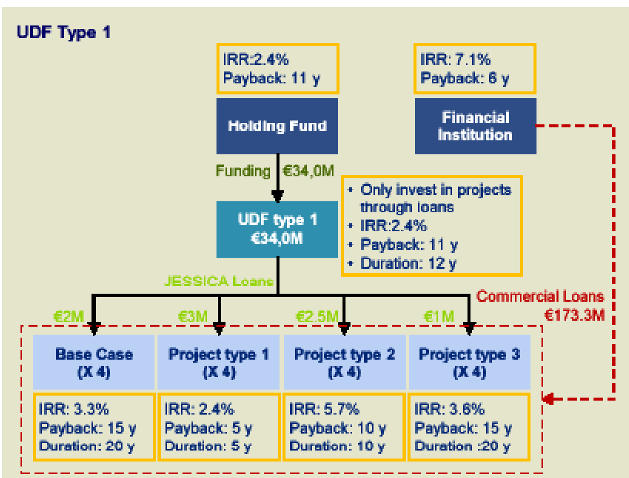
- is the UDF manager, receiving the management fee (1.5% over total fund size per year) and supporting all the management costs;
- supplies the Projects with commercial loans, obtaining the resulting interest and reimbursement.

It was not considered financial revenue from the UDF, annual unused cash.

The dividend profile is an input, never resulting in a negative cash account. In fact, a minimum working capital availability is annually guaranteed through a positive cash account.

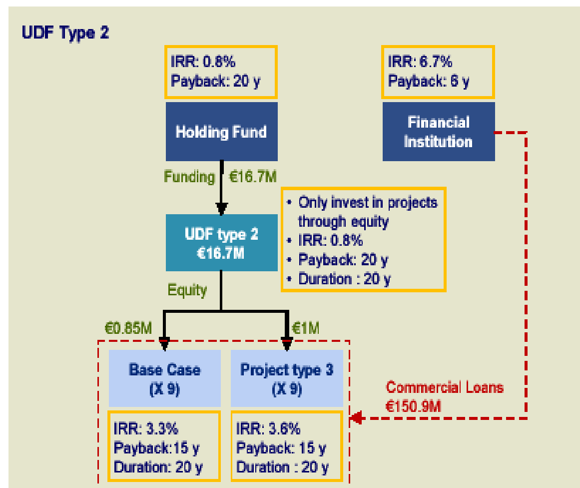
In the case of a possible negative cash account in the UDF in the first years, the shareholders grant the necessary supplementary capital for short term periods (the first to be repaid).

UDF is extinguished after all the Projects have been finalised.



Results:

- UDF total investment amount to € 34.0 M, to be applied providing loans to 16 (4x4) different projects.
- The projects selected will also require commercial loans of € 173.3 M (in project type 1, equity is also provided by financial institutions in the amount of € 1.2 M / project).
- UDF will obtain an IRR and payback of 2.4% and 11 years.
- The estimated IRR and paybacks of the financial institutions involved is 7.1% and 6 years.



Results:

- UDF total investment amount to € 16.7 M, to be applied providing equity to 18 (9x2) different projects.
- The projects selected will also require commercial loans of € 150.9 M .
- UDF will obtain an IRR and payback of 0.8% and 20 years.
- The estimated IRR and paybacks of the financial institutions involved is 6.7% and 6 years.

Source: Portugal Evaluation Study

1.6 UDFs via HF

The Evaluation Study's analysis on UDFs is based on the assumption that there is an Holding Fund ("fund of funds") investing in and receiving returns back from UDFs. In particular the analysis has been based on this simplifying assumptions:

The HF has an allocation of €100M in year 0, which starts to invest on UDF on year 1. The initial HF investment portfolio is constituted by two UDFs type 1 and two UDFs type 2.

UDF's dividends received by the HF are annually added to HF cash account.

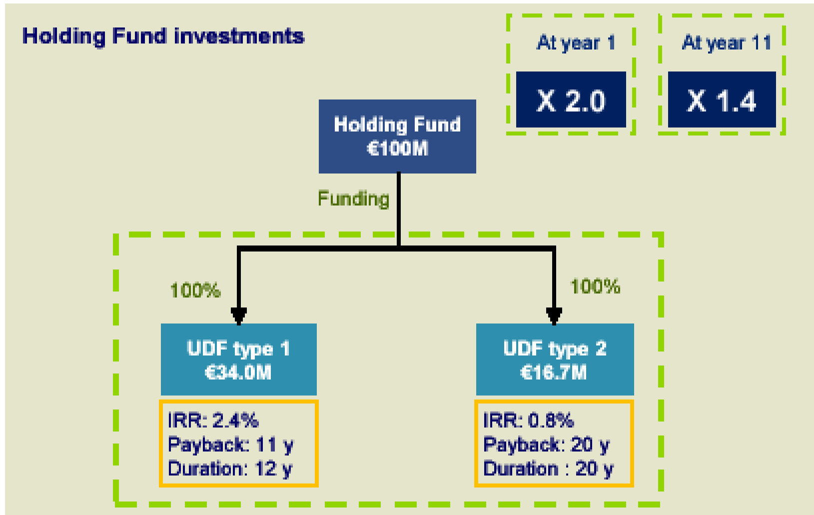
The HF will exist for time period of 30 years and only one second reinvestment cycle was assumed, at year 10 (other re-investment cycles could be considered, for example at year 20). In the second investment cycle, the investment amount assumed was computed considering the cash available at that year and the maintenance of HF financial sustainability in the upcoming years. In this sense, in the second investment cycle, HF is able to invest € 71 M in 1.4 new UDFs type 1 and type 2. In the year 30, the remaining cash available is returned to the National HF subscribers.

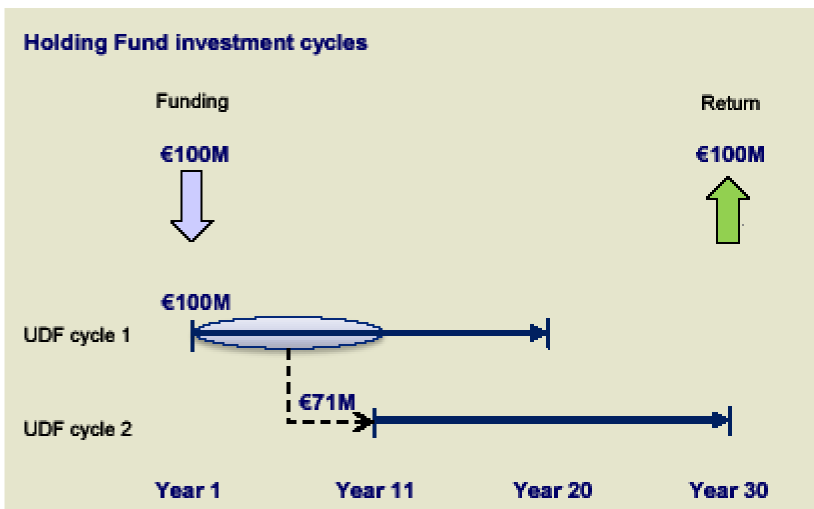
The HF pays a management fee of 2.0% of the total fund size to its manager each year.

The HF benefits from a 3% interest rate for its unused cash.

The main results are indicated to be the following:

- the total amount of JESSICA investment amounts to €171M (at year 0 and year 10);
- the IRR of the HF is close to 0% (The IRR may not be a good indicator of the HF performance, since the philosophy behind is not to obtain cash at the end, but to be able to perform reinvestments in the shortest period of time);
- the cash available at the end of the HF amounts to €100M;
- the amount of investment that can be performed by the HF at any given time depends on the return and the payback period of each UDF. The larger and the sooner the return obtained, the larger is the cash available to reinvest in other UDFs.





Source: Portugal Evaluation Study

1.7 Final considerations

Low profitability rates and long payback periods, together with risk perceived in urban regeneration projects, are the main concerns for private investors.

If this is the case, public intervention is functional and determinant for the implementation of the project.

However, in the case of urban regeneration initiatives that have potential to generate revenues that might compensate totally or partially the public investment made, the public initiative could be an efficient way of assuring a proper and most effective use of public money and of creating a leverage force in order to the project become a more attractive investment.

On the public perspective, it is no longer "giving" money (grant), yet is investing money more efficiently.

Under JESSICA scheme, money has to return to the entity that conceives such fund (UDF or even Holding Fund), on a loan basis (with interest rate), in order to have the possibility to have revolving nature (reinvestment on other projects).

The costs of using grant will not generate any return, being only applied once, while acting with JESSICA to leverage urban rehabilitation initiatives can implicate that the same amount can have a multiplier effect, being invested more than once. In this perspective, grant is more expensive and less effective than JESSICA.

Two main implications in using JESSICA should be considered:

- amount of investment performed having in consideration the initial funds used (JESSICA revolving effect);

- the ability to attract private investment to the projects (JESSICA multiplying effect).

The Evaluation Study affirms that there are no better solutions in terms of the type of UDF to adopt and indeed a blend of the above options might be the most suitable for implementation.

The definition of an UDF architecture for the deployment of JESSICA implies the choice of an adequate and balanced mix of these UDF models, or, if considered preferable, the option for a minimalistic approach more in line with the intended strategy, but in any case necessarily capable of delivering the expected output considering the strategy adopted and the projects' need and demand.

This means that the most determining aspect for the conception of JESSICA architecture at the UDF level is the strategy defined for JESSICA use and deployment. It will be the set of options embraced by the Investment Committee, reflecting public policies adopted and government orientations, that will determine which type of architecture will be the most appropriated to carry and fulfil those objectives. Thus, a good model will pursue the approved strategy with a balanced and effective mix of spatial (national, regional, local) and sectorial (thematic, according to nature of investment) models - not excluding investor lead UDF option, to satisfy specific market needs.

2. Andalucia

The Evaluation Study aims to propose UDF structures adapted to the implementation of JESSICA in Andalucia, by considering the legal obligations, the regulations relating to State Aid, a portfolio of projects and the need to reduce additional costs of processing and management to the minimum.

Urban projects will obtain JESSICA financing through the financial institutions managing the various UDFs, which in turn receive funds from the Holding Fund (EIB), by means of an appropriate declaration of interest.

2.1 Models of PPP in Spain and UDF legal status

In recent years there has been a significant development in Spain of an interest by public and private agents in formulating and executing joint cooperation projects. Although they have been late in developing in Andalucia, there is no doubt that the current economic situation and the need to maintain an appropriate level of infrastructure provisions in the region, especially in the transport field, have highlighted the Andalucia Regional Government's commitment to promoting public-private partnership. It seem that there is a seedbed of projects that could comply with the conditions to receive financing with Jessica Funds.

The most commonly applied models of public-private cooperation projects in Spain are:

- operational leasing;
- concession of public works;
- market public Company;
- surface rights.

According to JESSICA, Spanish and Andalucian regulations, UDFs can assume various legal forms and structures. These all have been studied in terms of their advantages and disadvantages, taking into consideration their operational flexibility, private participation, means of financing, the flexibility of the objective and the tax regime.

A study on legal possibilities in Spain for structuring UDFs was commissioned by the EIB on 2008[4] and they have been identified as follows:

- Public Limited Company (SA);
- Limited Liability Company (SL);
- Real Estate Investment Institutions (III);
- Public Corporation (PC);
- Administrative Consortium;
- Public Foundation;
- Venture Capital Institution (VCI);
- Reciprocal Guarantee Company;
- Multi-instrument fund with no legal status (MIF).

The Evaluation Study have considered the various advantages and disadvantages of each alternative, while analysing in more detail two new legal alternatives: reciprocal guarantee companies and the creation a multi-instrument fund with no legal status.

The recommended structures to be adopted by the UDFs are the following:

1. A fund lacking legal personality created by the Regional Government and managed by a public institution or company.

2. A Company created by a financial institution.

3. An independent resources block in a Financial Institution.

[4] The EIB commissioned the company *Clifford Chance, S.L.* to study the legal possibilities in Spain for structuring UDFs. This study was presented on 7 February 2008.

2.2 Eligible and pilot projects

The Evaluation Study has been focused on the analysis of pilot projects from a number of Andalucian towns, which has been identified by the Junta Departments among those most deeply involved in JESSICA initiative:

Pilot Project	Actions included	JESSICA compliance	Town involved
Improving mobility in the urban environment	Public transport permeability in the town centre: microbus network	Sustainable mobility	Sanlúcar de Barrameda
	Construction of a deterrent car parking network		
	New public leisure areas		
Social sustainability (Accessibility to housing and conciliation)	Construction of housing in the area occupied by the old Bonanza barracks	Urban regeneration	Sanlúcar de Barrameda
	Construction of a public education centre for children aged 0 to 3 years old (nursery)		
Fostering of new spaces boosting economic activity	Expansion of the Seville Conference Centre and regeneration of the surrounding urban area	Restoration /heritage Seville	
Enterprise and R+D+I areas in agrotowns	Transport innovation centre	R+D+I areas/businesses	Loja
	Subsidised Warehouses in the Manzanil Industrial Estate		
	Restoration of the building on the Carrera San Agustín road		
	Food and agriculture park		
Energy sustainability in Andalucia	Biomass energy installation project for Jaén	Sustainability and energy efficiency	Jaén
Cultural and economic regeneration	New Artists' Residence	R+D+I areas/businesses	Málaga

All the projects that have undergone a feasibility analysis have a positive rate of return on the project regardless of JESSICA involvement, thereby meeting the requirements of the Initiative in terms of eligibility.

Many of the projects have been designed to minimise the risk of consolidation of the infrastructure on the government body's balance sheet (thereby avoiding the associated debt being accounted for in the accounts of the Public Administrations sector), which means that the company (public or mixed) that promotes the infrastructure must be market-oriented, and that the risks must be properly transferred to the non-financial companies sector (the risk of construction and at least demand or availability).

This objective means that the economic-financial feasibility plan for these projects was asked to guarantee a minimum yield that meets the requirement that the mixed or public company is market-oriented or where appropriate, that it provides financial compensation to the third party for the construction and/or management of the infrastructure, taking into account the risks it assumes.

During the exercise in applying JESSICA scheme, various financing formulas have been used depending on the characteristics of each project: equity, loans or a combination of both (JESSICA flexibility).

The involvement of JESSICA in these projects improves their yield and reduces the risk for financial institutions, making them more attractive. This is very important in the current macroeconomic climate, in which businesses and government bodies are facing considerable problems when seeking financing.

2.3 State Aids

The basic assumption is that in order for granting Jessica Funds in the form of loans, guarantees or equity to be considered State aids, they must distort or threaten to distort competition.

The application of European regulations would only arise if these contributions include incompatible aids or evidence of incompatible aids, and in specific terms:

1. The obligation to provide notification of the measure (equity, loan or guarantee with Jessica Funds);

2. The possibility of using the regime of one of the aid categories that the Commission has declared as compatible and therefore exempt from notification.

The JESSICA structure provides for two contributions of structural funds:

• From the HF or Portfolio fund to the UDFs;

• From the UDFs to urban projects.

In order to determine whether these are compatible with the single market it is necessary to analyse them from the perspective of the principle of the private investor in a market economy, according to which intervention by public authorities occurs at the point where the investor's rationality ends, which would make it public aid: there will be no State aid when the aid measures (whether these are loans, guarantees or equity) are executed under conditions that would be acceptable to a private investor operating under normal market conditions.

Analysing the different JESSICA financial instruments, the considerations of the Evaluation Study are:

- If loans or participating loans are granted under the same conditions as a private investor operating under normal market conditions would grant them, these measures would not be considered state aid.

- As the loans granted within JESSICA are granted at market interest rates and to feasible projects or PPPs, it can be said that under these circumstances they will not be considered state aid. The presence of private equity in the UDFs and their granting of loans also guarantees behaviour according to the market and compliance with the private investor principle.

- When sureties and other guarantees, which are generally associated to a financial operation are granted, these will not be considered state aid, and must be executed under the same condition as a private investor would do in a market regime.

- The guarantees given within the JESSICA initiative will be granted by means of a price, to feasible projects or businesses, which would obtain guarantees in the market and to guarantee financial operations for specific projects. As a result, it can be said that under these circumstances they would not be considered state aid. Once again, the presence of private equity in the UDFs and its execution of guarantees, also guarantees behaviour according to the market and compliance with the private investor principle.

- Finally, one of the JESSICA measures will be public participation (with public funds) in the equity of businesses. According to EU regulations, this is not state aid when new capital is provided under conditions that would be acceptable to a private investor operating under normal market conditions.

- Within the JESSICA framework, holdings in businesses or projects in the form of capital do not meet the above conditions because they must be feasible and profitable projects, and for that reason we believe that under these circumstances they would not be considered state aid. The presence of private equity in UDFs and their participation in businesses and projects also guarantees behaviour according to the market and compliance with the private investor principle.

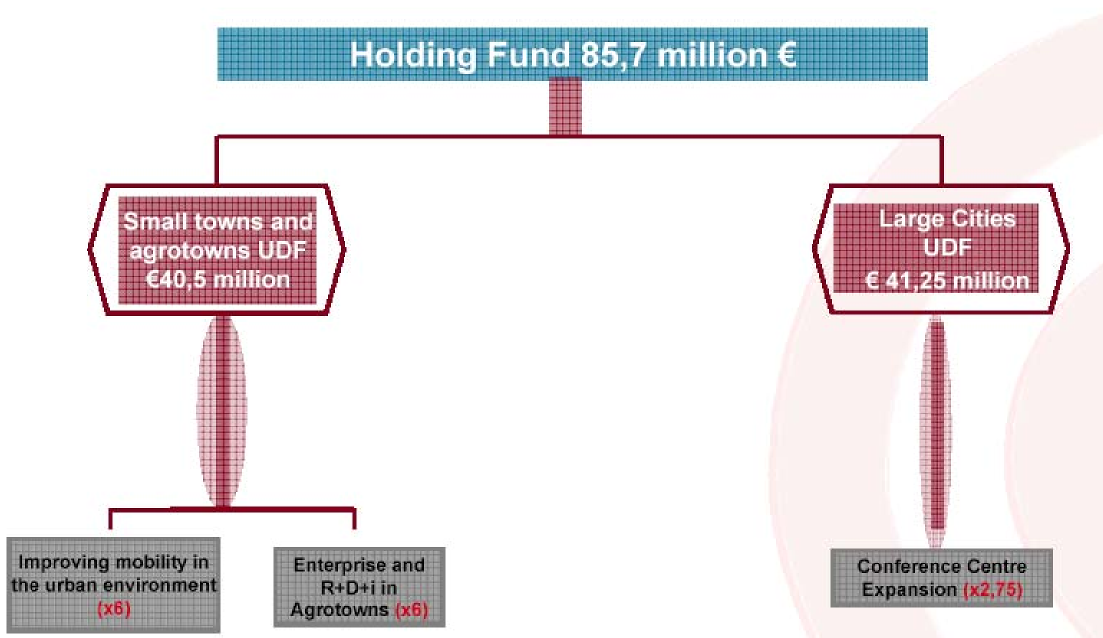
As a result of the this analysis, it is said that in the UDF's legal structures proposed Evaluation Study, there is the participation of capital and private partners seeking a yield on their investment who will behave like market investors, investing resources in feasible projects and in healthy projects and businesses.

Moreover, the possible contributions from Jessica Funds, either to UDFs, urban projects and PPPs will take place through financial instruments that enable reimbursement of financing, and mainly capital contributions, loans and guarantees.

Both assumptions seem to guarantee that within the JESSICA framework, provisions of funds should not be considered as State aid that is incompatible with the common market as these funds are always provided according to the private investor principle.

2.4 HF/UDF proposed structure

As a result, based on the pilot projects analysed and the project feasibility analysis, the decision has been taken to create two UDFs in Andalucia, based on the population size of the applicant towns.



Source: Andalucia Evaluation Study

Small town and agrotowns UDF

- The main purpose will be to invest in projects for the development and promotion of small and medium-sized towns (between 20,000 and 50,000 inhabitants), with special emphasis on Andalucian agrotowns.

- The UDF finances projects with a volume of 40.5 million euros, and the Jessica Funds participation will be by means of loans and equity.

- It is assumed that the UDF managers will be the financial institutions granting financing.

- The benchmark projects considered are as follows (under the same conditions listed in the feasibility analysis for each one): improvement of mobility in the urban environment, over a 15-year period, with Jessica funds payback over 13 years. The contribution of Jessica Funds will take the form of loans and equity.

- Enterprise and R+D+I in agrotowns over a 20-year period with 5 years of payback for Jessica Funds.

- The funds will be managed by the financial institutions financing the projects.

- Incurring annual management costs of 155.000 euros, for the rental of offices, salaries (x3) and other expenses, in the first five years (start-up period, greater supervision and initial work by the projects), and 0,5% of the Jessica funds managed or the stream of flows arising from the contribution of capital in the following two years, and 0,10% in the remaining years.

- It receives a commission of 3% of the funds managed in the first three years, 2% in the next three years and 0.30% in the remaining years until the date that all the Jessica funds are returned.

- The flows to be obtained by the financial institutions will be the financing interest rate, plus the commission for fund management. The yield of the Jessica Funds is transferred to the HF.

- This does not cover the capitalisation on the Jessica Funds available, as this yield will be almost zero if the immediate application of the project funds and the average six-monthly return to the HF of their capitalisation and flows are assumed.

Large Cities UDF

- It is specific for large towns, above the threshold of 50,000 inhabitants. The main objective is to take advantage of the main opportunities and assets of these cities to undertake ambitious urban regeneration projects.

- The UDF finances projects with a volume of 41.25 million euros.

- It is assumed that the UDF managers will be the financial institutions granting financing.

- The participation of Jessica Funds is exclusively by means of equity.

- The benchmark projects considered are as follows, under the same conditions listed in the feasibility analysis for each one.

- Expansion of the Seville Conference Centre over a 20-year period, with 15 years of Jessica Funds payback.

- The funds will be managed by the financial institutions financing the projects.

- Incurring annual management costs of 155,000 euros, for the rental of offices, salaries (x3) and other expenses, in the first five years (start-up period, greater supervision and initial work by the projects), and 0.5% of the Jessica funds managed or the stream of flows arising from the contribution of equity in the following two years, and 0.10% in the remaining years.

- It receives a commission of 3% of the funds managed in the first three years, 2% in the next three years and 0.30% in the remaining years until the date that all the Jessica funds are returned.

- The flows to be obtained by the financial institutions will be the financing interest rate, plus the commission for fund management. The yield of the Jessica Funds is transferred to the HF.

- The capitalisation of the Jessica Funds available has not been considered.

Holding Fund

- The HF is established with 85.7 million euros, and will initially be managed through the two funds described.

- The participation of Jessica Funds will be by means of loans and/or equity.

- The HF term is estimated at 20 years.

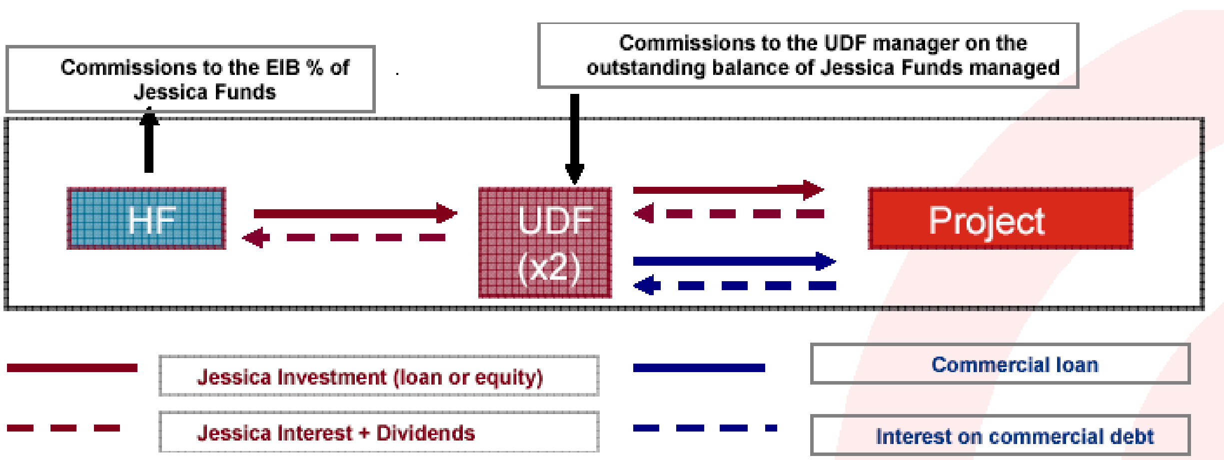
- The dividends and interest generated by participation in the fund will increase its volume.

- The HF pays the manager an annual commission of 1.5% of the volume total of its constitution for nine years, and 0.20% in the remaining years. The commissions paid to each UDF are also provided for.

- It is estimated that the funds available will be capitalised at 1.5% annually.

- Re-investment of the funds returned by the UDF in new projects over the next 20 years has not been considered.

Diagram of flows between the HF, UDFs and each project



Source: Andalucia Evaluation Study

- The HF provides funds for each UDF so that the UDF assigns them to each project. Although each UDF channels and receives the flows and yield of the Jessica Funds managed, these flows go to the HF. The HF pays the EIB a commission of 1.5% of the Jessica Funds managed every year during the first nine financial years.

- The UDF grants additional financing for the projects, and in return receives an annual interest rate on the outstanding balance of the funds granted.

- For its management of the Jessica Funds, the UDF receives an annual commission in the first three years of 3% of the outstanding balance of the Jessica Funds, which gradually declines in the following years.

3. Brandeburg

3.1 The Land and the Regional Bank (ILB)

Brandenburg, with its six millions inhabitants, forms together with Berlin the German Capital Region.

Berlin-Brandenburg has the highest concentration of R&D institutes in Germany.

The biggest city in Brandenburg is Potsdam with app. 150.000 people. The majority of cities in Brandenburg are smaller than 50.000 inhabitants.

The Investitionsbank des Landes Brandenburg (ILB), 100% owned by the Land, is the promotional bank of the Land of Brandenburg, charged of the implementation of the grant programs of the Land in the fields of economy, infrastructure, housing, instruments, grants, loans at favourable interest rates, guarantees, venture and equity capital.

3.2 JESSICA in Brandenburg: actors and integrated plans

Brandenburg authorities seized the suggestion of the JESSICA-Initiative and decided to developed a concept for an UDF to complement grant financing, on the basis of three objectives:

- establishing a revolving funds for urban development over the end of the running structural funds period;
- stronger consideration of the profitability of projects;
- mobilisation of public and private capital for urban development.

The key actors are:

- Ministry of Economic Development (MW), as Managing Authority;
- Ministry of Infrastructure and Spatial Development (MIR), as ERDF intermediate body and Brandenburg's urban development policy;
- Investitionsbank des Landes Brandenburg (ILB);

- Brandenburg Municipalities (MUN), for Local development plans and Project implementation.

Within the directive "Sustainable Urban Development", 15 cities in Brandenburg (INSEK) can be funded under ERDF Programme if an integrated urban development concept will be elaborated.

These 15 cities in Brandenburg can also make use of the UDF.

A market study was launched at the beginning of 2010, assessing the project pipelines in the 15 INSEK municipalities. The results of this study are expected for the end of the second quarter.

3.3 UDF concept in Brandenburg

The Land established a two-step process, starting from a pilot fund to be expanded in a broader fund (phase II) involving the full spectrum of JESSICA financing instruments and addressing public as well as private project promoters.

The pilot UDF Brandenburg was set up as a trust fund in 2009 and is managed by the ILB.

It has been endowed with EUR 20m (EUR 15m ERDF plus EUR 5m national co-financing provided by the ILB). The co-financing has been provided in the form of an interest-bearing loan. The ILB will re-finance its co-financing of the UDF under an already approved framework loan from the EIB.

The pilot UDF will:

a) finance municipal (risk-free) projects which are part of an integrated urban development concept (INSEK) and operations related to:

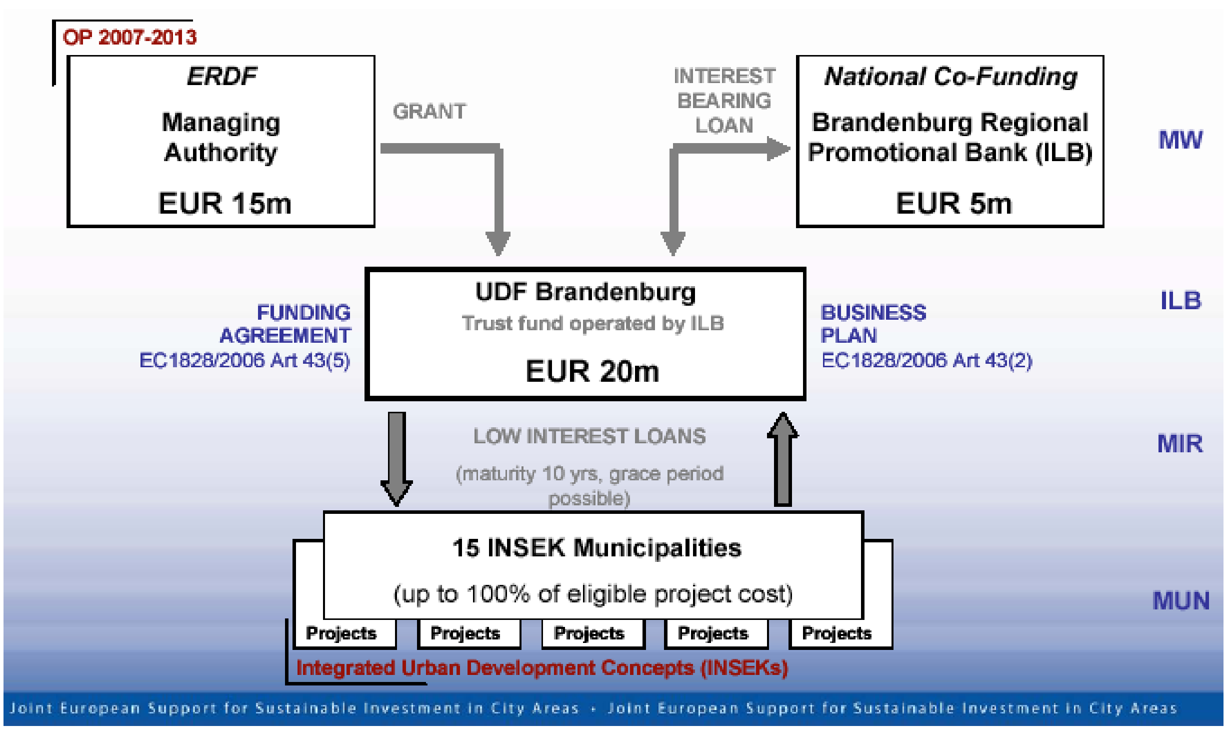
    - elimination of deficits in urban planning;
    - improvement of inner city traffic;
    - adaption of social infrastructure;
    - adaption of infrastructure for education;
    - city management and marketing;
    - "Urban-Culture";

b) finance integrated plans satisfying the following promotion prerequisites:

- project-related income;
- obtained direct and Indirect follow-up investments;
- indirect returns;
- regional economic effects;
- credit standing on the municipalities;

c) provide loans at the following conditions:

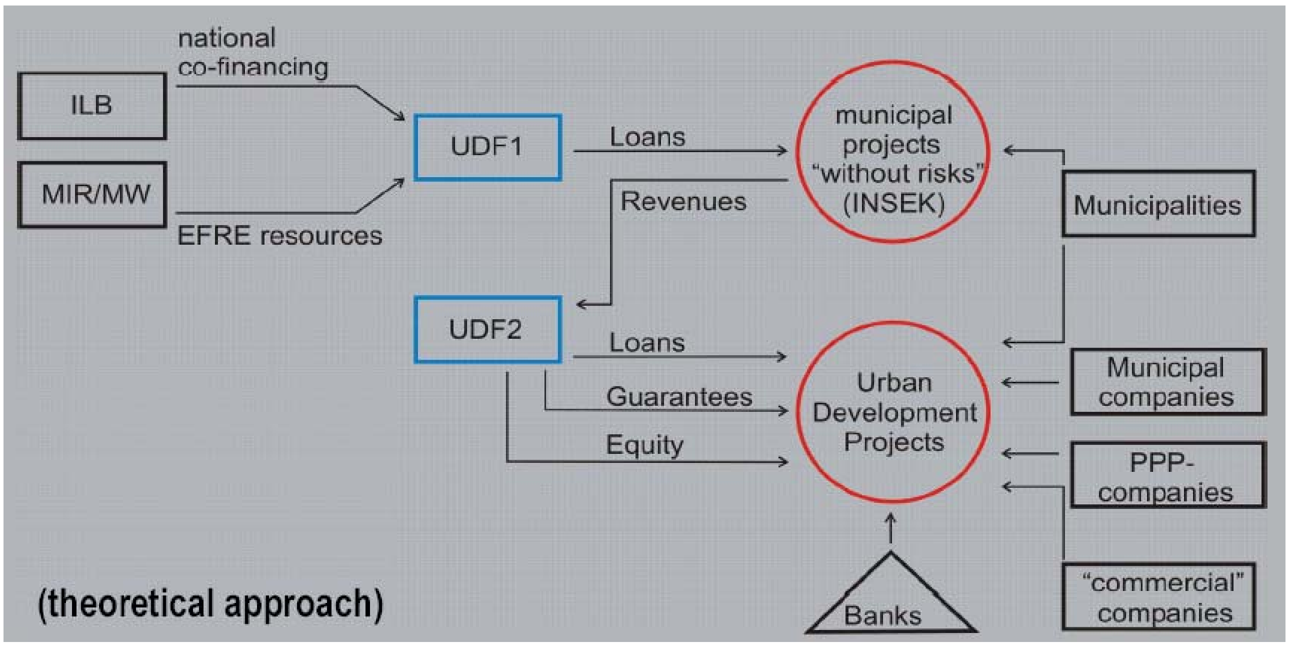
- 100% of the investment;
- interest rate 1 – 1.5% p.a.;
- instalment credit with a maturity of 10 years;
- no repayment possible for the first two years.



Source: EIB JESSICA Task Force

The "second generation" UDF will be financed by returns of the first UDF and is envisaged for:

- integration of private stakeholders;
- combination of UDF and grants;
- application of other instrument such as equity and guarantees;
- economical effects for municipalities and private investors;
- effects on urban development and structural policy;
- realisation of UDF investment (under public and private law).



Source: FIRU mbH / Prof. Nadler (JESSICA Networking Platform 17.06.09)

VI. UDFs model

1. Overview

In accordance with the Funding Agreement, the HF should channel its funds to Urban Projects through UDFs selected in accordance with a tender process.

In this context, the EIB is appointed to launch Call for Expressions of Interest (Call for EoI) with the aim of selecting Urban Development Funds (UDFs).

Managing Authority	**HF (Funding Agreement)**	**Allocation HF**	**Call UDFs**	**Amount HF for the Call**	**Partner J4C**
Junta de Andalucia	JHFA 8 May 2009	85,7 M € ERDF 70%	Closed on 6th May 2010	Lot 1 40 M€ Lot 2 40 M€	NO
Northwest Regional Developmnet Agency (NWDA)	NWUIF 12 vov 2009	£ 100 ERDF 50% NWDA cash + land 50%	Closed on 23rd April 2010	Lot 1 30M £ Merseyside Lot 2 30M £ Rest of NW	YES (AGMA)
Wielkopolska region	JHF 29 April 2009	313 M€ Pln	Closed on 8 April 2010	285 M Pln	YES (City of Poznan)

<u>HF in Andalucia</u>

The JHFA has been established as a **separate block of finance** for the purpose of investing funds in repayable investments, in public-private partnerships or other Urban Projects in co-operation with the banking sector in Andalucía.

The functioning of JHFA is supervised by its Investment Board (**Investment Board** of the JFHA), currently consisting of the members appointed by the five Regional Councils (Consejería de Turismo, Comercio y Deporte, Consejería de Cultura, Consejería de Vivienda y Ordenación del Territorio, Consejería de Agricultura y Pesca and Consejería de Economía y Hacienda) of the Regional Government of Andalucía.

HF in NWDA: The Match Funding

The NWUIF has been established as a **separate block of finance** within EIB. As a result, the NWUIF is not a separate legal entity, with the EIB to be the legal counterpart in financing agreements that the NWUIF enters into with UDFs.

An independent **Investment Board** has been established to oversee the NWUIF. The Investment Board will, broadly, be responsible for governing the implementation of the NWUIF which includes approving or rejecting recommendations made to it by EIB as fund manager.

The initial allocation to the NWUIF is £100 million – comprising £50 million of ERDF resources from the NWOP and an equivalent Match of £50 million (comprising £22 million of cash and £28 million of land and building contributions) from the NWDA.

The NWUIF's investment strategy requires UDFs to source £50 million of **Match funding**. Once this is provided at UDF level, the original Match funding provided by the NWDA will be treated as follows:

- £10 million from the cash allocation will be invested in the Lot 2 - Rest of North West UDF;
- £12 million of cash will be retained by the NWUIF and may be used in due course to provide further funding to UDFs or Urban Projects.
- The NWDA has indicated it is willing to consider utilising some of its £28 million land asset contributions (currently invested in the NWUIF as Match) in viable Urban Projects coming forward within UDF Business Plans once they are substituted out of the NWUIF.

EIB in consultation with the NWDA and upon agreement of the Investment Board, may make recommendations on the further use of the £12 million cash resources contributed by NWDA to the NWUIF. Such recommendations might include:

- making further investments into well performing UDFs at a later stage;

- allowing for the funds to be provided as grant by NWDA to Urban Projects included in the Business Plans of UDFs;
- utilising these funds to meet management costs of the NWUIF or UDF fund managers in the medium to longer term.

2. Selection, Evaluation and Further Steps

The selection of UDFs will proceed in three stages:

Stage 1: EoI to be admitted in accordance with the Exclusion Criteria and to be assessed on the basis of the Selection Criteria.

Stage 2: All applicants invited to submit their Offers (including detailed Business Plans) to be evaluated on the basis of Award Criteria.

Stage 3 (optional): Negotiation of most favourable Offers.

Stage 4. Conclusion of the Operational Agreement (contractual terms and conditions governing the obligations of each party, including the investment strategy)

The following Criteria apply:

A. Exclusion Criteria

Bankrupt, grave professional misconduct, etc.

B. Selection Criteria

Besides documents/declarations to be provided, the following criteria are required:

- Andalucia

  Experience in the relevant targeted market: minimum three years in the management of equivalent or similar projects to those foreseen in this Call for EoI.

  If applicants are financial entities or non-financial private corporations: minimum rating of BBB+/BBB1 provided by either Standard & Poor’s rating Services (a division of The MacGraw-Hill Companies Inc.), Moody’s investors Service Inc. or Fitch Ratings Ltd.

  If applicants are non-financial public entities: a clear evidence (supported by legal opinion) that their ultimate risk either through external guarantee or through implicit State/Local Entities support shows a minimum rating of BBB+/BBB1 provided by either Standard & Poor's Rating Services (a division of The McGraw-Hill Companies Inc.), Moody's Investors Service Inc. or Fitch Ratings Ltd.

  Should the applicant be a consortium, the leading party (which should hold more than 50% of participation) shall provide the rating indicated above.

- NWDA

  Three examples of recent experience in funding sustainable urban regeneration (of the type eligible under the NWOP), highlighting:

  - Name of project and period of execution/financing of the project.
  - Description and estimated value of the project including information on private and/or public partners engaged in the project (if applicable).
  - Applicant’s role in the project and type of financing provided, including key terms and conditions of financing provided and legal structures used, security taken, etc.
  - Relevance of the project to the NWOP.
  - Explanation of how the applicant’s project team was structured, governed and the technical expertise and competencies brought to the project by the key individuals involved.

- Project outcome and returns (projected if applicable).
- Contact name and details where the EIB can seek a reference for each presented case study.

Also experience of and approach to:

- Working with its proposed team of subcontractors / consortium members.
- Working with key public and private sector stakeholders.
- Applying for and managing ERDF funds, including the monitoring and reporting of performance metrics.
- Experience of establishing, appraising and managing a portfolio of regeneration investments.

C. Award Criteria

They are related to different categories:

1. Investment strategy and governance structure

- level of understanding of JESSICA concept and relevant OP action area priorities and objectives, including Output Targets and manifestation of this comprehension in the Investment Strategy;
- optimisation of the utilisation of funds in order to achieve the objectives of the Investment Strategy;
- compliance of the targeted market with the Investment Strategy and a balance of geographical and sectoral diversification across the Lot being applied for;
- appropriateness of the methodology for the identification and evaluation of Urban Projects (including provisions ensuring that Urban Projects will comply with the priorities and objectives of the relevant action areas of the OP);
- the robustness of the applicant's proposals to engage with local stakeholders and delivery bodies, both public and private.
- evidence that the proposed terms and conditions for financing Urban Projects will meet EU rules including state aid and Structural Funds.

2. Financial Forecast of the UDF

- the level of development and credibility of the financial forecasts and its compliance with the Investment Strategy and project portfolio;
- potential of the Portfolio of Urban Projects and robustness of the ownership and the legal structure of the UDF;
- the potential amount of co-financing that can be levered.

3. Annual management fee

- the lower the level of the Management Fee indicated by the applicant, the greater the number of points awarded.

4. Project Portfolio and Management team

- contribution of the projects to OP action area objectives and Output Targets, including sufficiency of Eligible Expenditures;
- robustness of the projects pipeline, stage of the preparation of indicated Urban Projects and the probability of their execution;
- evidence of projects at an advanced stage of development and ready for early implementation using HF support;
- compliance of the projects with the requirement to form part of an Integrated Plan for Sustainable Urban Development;
- evidence of suitable level of in principle support from the MA and other public bodies for the use of assets or resources;
- the relevant experience and structure of proposed team of key experts shall be assessed (structure diagram for key roles and responsibilities).

5. Ownership and governance structure, risk management and control procedures

- coordination with the Managing Authority and the HF and relations with regional and local authorities and private investors;
- credibility and robustness of the ownership structure and its suitability for delivering the objectives set for the UDF;

- level and evidence of support from public sector partners and other relevant market participants;
- the reliability and credibility of the winding-up or other provisions which will apply at the end of the UDF's life;
- reliability and credibility of the risk management procedures;
- the professionalism, independence, reliability and credibility of the proposed management process, administrative procedures and organisational capacity of the UDF to undertake loan investments, including policies and procedures for appraisal, approval, credit scoring/rating, taking of security, etc. This should address the applicant's policy on addressing investments where problems occur such as poor performance and approach to write-offs where these are required;
- the strength, reliability and credibility of the governance, accounting and internal control procedures;
- the strength, reliability and credibility of the monitoring, reporting and controlling procedures including compliance with FSA requirements;
- the strength, reliability and credibility of the risk management procedures (including early warning mechanisms and loan workout processes and procedures);
- the larger the amount invested and the higher the capacity to attract private funds to the initiative at the UDF or project level, the higher the points awarded. The risk sharing mechanism will also be taken into account..

3. Business Plan Content

According to Reg. No. 1828, art. 43, the business plan shall specify at least the following:

(a) the targeted market of enterprises or urban projects and the criteria, terms and conditions for financing them;

(b) the operational budget of the financial engineering instrument;

(c) the ownership of the financial engineering instrument;

(d) the co-financing partners or shareholders;

(e) the by-laws of the financial engineering instrument;

(f) the provisions on professionalism, competence and independence of the management;

(g) the justification for, and intended use of, the contribution from the Structural Funds;

(h) the policy of the financial engineering instrument concerning exit from investments in enterprises or urban projects;

(i) the winding-up provisions of the financial engineering instruments, including the reutilisation of resources returned to the financial engineering instrument from investments or left over after all guarantees have been honoured, attributable to the contribution from the operational programme.

Analysing the template of Business Plan proposed in the calls for EoI and to be included in the Offer, several useful information for the understanding of the UDF concept can be used.

A. Investment Strategy

Since the Investment Strategy will be the starting point for the future Portfolio of Urban Projects, the Investment Strategy will describe, at least, the following matters:

a) its compliance with the objectives established in ERDF OP and with the eligibility conditions stipulated in the "Guidelines for JESSICA-compliant Integrated Plans for Sustainable Urban Development" (Appendix F);

b) the targeted market, geographical coverage and other relevant criteria and objectives of the future Urban Projects;

c) the conditions for financial products in accordance with the description of the UDF financial products provided for in the Terms of Reference (as described in Section XI hereof);

d) the system of selection and diversification of the future Urban Projects.

B. Provisional financial forecasts and operational budget of the UDF

The provisional financial forecasts and operational budget of the UDF (to be presented according to a template provided in the Call) should be based on the projects' criteria and other aspects included in the Investment Strategy.

C. Project Portfolio

The methodology for the identification and evaluation of future Urban Projects shall contain provisions assuring that the selected Urban Projects to be financed by the UDF will:

a) comply with the objectives established in ERDF OP (including quantitative outputs);

c) be supported by Integrated Plans for Sustainable Urban Development;

b) comply with the expected economic rate of return of the Urban Projects, including a description of the social and environmental benefits resulting from its execution, according to the financial model of the UDF and the conditions for the financial products.

Based on the applicant's knowledge of the local market and local needs, the applicant shall play an active role in terms of cooperation with local authorities as regards identification, selection and financing of Urban Projects.

Finally, the applicant should also include a full description of the internal scoring system to be applied for the selection of Urban Projects.

In order to ensure proper application of JESSICA fund across the region, a system for diversification of the project portfolio may be foreseen.

In example, in Andalucia, a maximum amount for Urban Porjects is established:

- 15 M € for single Urban Projects presented by large cities (more than 50.000 inhabitants);

- 5 M € for single Urban Projects presented by small and medium size cities (less than 50.000 inhabitants).

In NWDA, not more than 20% of funds allocated to the UDF shall be invested in a single Urban project.

In Wielkopolska, approximately 40% of the total amount applied shall be invested in projects in cities with less than 50.000 inhabitants.

D. Exit Strategy of the Urban Projects

The applicant shall describe the policy governing the exit from investments in Urban Funds.

E. Legal and ownership structure of the UDF

The applicant shall provide information on the proposed legal structure and ownership structure of the UDF.

The UDF may be established as: joint stock companies, limited liability companies, investment funds, and a separate block of finance within a financial institution or other organisational forms requiring a special legal regulation/statute.

The legal structure shall comply with national law, when required.

F. Governance structure

The applicant shall describe the management, administration and accounting_procedures, which will be applied in the exercise of the function of UDF. The applicant shall also present the governance provisions of the UDF, including internal control procedures, as well as the risk management procedures that will be applied to the operations of the UDF.

The applicant shall propose the structure and operation of the UDF management system, which should ensure a proper appraisal of the Urban Projects, that:

- could be carried out internally, within the UDF, or through external support and reports;
- should ensure that Urban Projects are feasible from the economic, social and technical points of view;
- should guarantee that Urban Projects comply with the eligibility criteria set up in the EU Structural Funds Regulations, in the national and regional applicable rules, and in the ERDF OP;
- should analyse the risks involved, the financial structure and the expected revenues for the different stakeholders of the Urban Projects in order to set up the conditions for the participation of the UDF in the financing of these projects.

The UDF Manager will have to propose a practical, cost-effective method to achieve a satisfactory management and governance system.

A key experts team should include:

1. Key Director of the UDF;
2. Expert on Urban Projects;
3. Project finance expert;
4. Team manager for monitoring and reporting;
5. Expert for Structural Funds (ERDF) mechanics and eligibility criteria.

Professional, competent and independent management shall be assured. Independence is a key element of the assessment, and relates to the applicant's ability to demonstrate how it will select projects which best deliver NWOP outputs with an appropriate balance of risk and return, free from any conflict of interest or political / geographical bias.

G. Term and Financial Conditions of the Operational Agreement with the HF

The applicant should propose:

- the requested term of the Operational Agreement to be concluded between the UDF and the JHFA;
- the financial conditions of the Operational Agreement;

In any case, the Operational Agreement must comply with the requirements set forth for this Agreement in the EU Structural Funds Regulations.

The UDF shall not re-finance acquisitions or participations in Urban Projects that have already been completed.

Urban Projects receiving grant assistance from an Operational Programme of the Structural Funds may be supported by the UDF, according to the relevant EU Structural Fund Regulations.

Conditions for the UDF financial products shall be based on the following guidelines:

- The sum, before discounting, of all cash flows from operating and investing activities of the Urban Projects (including initial expenditure) must be positive.
- The profitability of an Urban Project without UDF support should be lower than normally required by the market, so that with typical forms of financing the selected Urban Project could not have been realised [internal rate of return (IRR) for selected Urban Project's investors would be lower than required under the normal market conditions applicable to such an Urban Project].
- The terms and conditions of financing from the UDF should be sufficiently more advantageous in relation to market terms, so that:
    - (i) due to UDF financing, the rate of return for equity investors reaches a fair market level (Normal Equity IRR);
    - (ii) due to UDF financing, the rate of return for providers of debt reaches a fair market level (Normal Debt IRR).

- The intensity of UDF financing should not exceed the level sufficient to encourage a project promoter to execute an Urban Project. Following the investment from UDF, the rate of return for equity investors and providers of debt shall not exceed the Normal Equity IRR and Normal Debt IRR respectively.
- For the purpose of the Business Plan:
  - (i) Normal Equity IRR shall be established at a fair market level;
  - (ii) Normal Debt IRR shall be established in line with the interest rates applicable by Spanish banks for the purpose of financing similar projects.
- The determination of the terms and conditions of project financing from the UDF must take place before the Urban Projects are implemented and must be performed on the basis of the anticipated financial and economic results, presented as part of the financial analysis (i.e. as part of the financial plan of the Urban Project).
- The terms and conditions of engaging the UDF should be determined on an individual basis.

H. Management fee

According to Reg. No. 1828, art. 43, management costs may not exceed, on a yearly average, for the duration of the assistance, any of the following thresholds, unless a higher percentage proves necessary after a competitive tender:

(a) 2% of the capital contributed from the operational programme to holding funds, or of the capital contributed from the operational programme or holding fund to the guarantee funds;

(b) 3% of the capital contributed from the operational programme or the holding fund to the financial engineering instrument in all other cases, with the exception of micro-credit instruments directed at micro-enterprises.

The applicant should indicate the percentage to be claimed by the UDF Manager, as annual management fee, of the total HF funds managed.

The Management Fee shall include all fees and expenses to be incurred by the UDF Manager in relation to administration services and other auxiliary activities and the UDF shall not have the right to request remuneration from the selected Urban Projects with respect to the same.

In the Andalucia call, it is suggested to applicants to propose a Management Fee linked to three components of its activity:

(i) An annual "project appraisal fee" to cover costs related to the project appraisal process;

(ii) An annual "structural funds monitoring fee" to cover costs of monitoring, reporting and other services related to ensuring the compliance with structural funds regulations

(iii) An annual "loan administration fee" until its final maturity date. It is expected a substantial decrease over time of the Management Fee according to the evolution and workload requested to the UDF.

In Wielkopolska call, management fee may be increased by an additional performance incentive if UDF sign all the Investment agreements before a certain date.

I. Co-financing

The UDF Manager shall present the strategy for obtaining potential financing from external sources to the HF either in monetary term or in kind and to raise finance from other private sources. The ability of the UDF Manager to provide co-financing is an important factor in the evaluation of the Offer.

The applicant must distinguish whether the co-financing commitment is carried out inside or outside the UDF. In the first case, the applicant will determine the mechanisms for remunerating the different resources (equity, loans or equivalent instruments) of the funding received by the UDF, if any. In the second case (co-financing with the UDF to Urban Projects) the applicant will indicate the subordinatory relationships that may exist between UDF financing and external financing, if any.

It shall be noted that there should be no preference for non-JESSICA funds over JESSICA funds. In other words the terms and conditions of the non-JESSICA co-financing coming to a UDF shall be the same as the terms and conditions of the JESSICA financing (*pari passu* rule). To avoid any doubt, this *pari passu* rule does not have to apply to co-financing of Urban Projects where JESSICA financing may be junior to other sources of funds.

The non-JESSICA co-financing of Urban Project may be provided by a UDF. Urban Projects shall have discretion to decide whether they are willing to accept such co-financing and this decision shall not have any implication on whether they shall receive JESSICA funding from UDF.

Likewise, the applicant shall indicate if it proposes any risk sharing mechanism, under the Operational Agreement, related to the potential losses for the HF arising from the financing to Urban Projects developed by the UDF.

L. Reutilisation of Resources

The UDF Manager undertakes to repay to HF the funding received by the UDF, subject to any risk-sharing element, which might be established. Detailed procedures for the returning of the funds shall be described, including the winding-up provisions of the UDF. If possible, the plan for the reutilisation of resources returned to the UDF from investments in Urban Projects should be also described.

VII. Final remarks

In general, we can say that UDFs must be configured to comply with the legislation and strategic objectives of the Managing Authority, and that their structure has to take account of three dimensions:

- territorial focus: for UDFs established for particular territories, such as individual cities (e.g. the UDF for the capital city), districts (e.g. UDFs for run-down districts in several cities), or types of urban context (e.g. UDFs for medium-sized cities). The managers of funds of this kind should have not only the essential technical expertise to assess investors' risks and potential financial reward but also the professional ability to evaluate in particular the risks and opportunities associated with portfolios of investments in particular urban territories;
- thematic/sectoral focus: given that the fund's field of activity is urban and, in particular, that the projects must be part of integrated plans for urban development, a thematic or sectoral fund concentrates on a particular sector or theme, such as the environment/energy (e.g. a UDF for energy-saving measures), industrial (e.g. a UDF for premises/sites for innovation/research and development), social (e.g. a UDF for social infrastructure in a system of cities), and so forth. Apart from general investment expertise, the manager must have specific skill in assessing investments in the sectors covered by the UDF;
- focus on the type of financing: the nature of the fund depends on the type of financing used, that is to say equity, loans or guarantees; in this case the fund is specialised according to the type of financing (hence, for example, a UDF for guarantees to PPP contractors).

1. Key Tasks

The key tasks envisaged for the UDF will broadly be to:

- identify, invest and lead the negotiation and structuring of financial investments in viable Urban Projects which fit within the agreed investment strategy of the UDF;
- secure Match funding at UDF level and, to the extent possible, additional financing at project level in identified Urban Projects to ensure that NWUIF's investment is sufficiently and appropriately leveraged and that sufficient Eligible Expenditure can be declared in those Urban Projects in accordance with EU Structural Fund Regulations;

- monitor compliance, risk and achievement of Output Targets in accordance with the NWOP;
- recommend and manage appropriate exit strategies from Urban Project investments.

2. Legal Forms

Financial engineering instruments, including holding funds, are set up as independent legal entities governed by agreements between the co-financing partners or shareholders or as a separate block of finance within a financial institution (Article 43 of Commission Regulation No 1828/2006). It can be required that UDF manager are authorized and regulated in the framework of national law.

3. Potential Urban Projects

3.1 Criteria for Urban Projects

The project portfolio of a UDF may consist of a number of projects that differ in terms of their economic value added, technical description, duration, size, risk and returns. All projects shall meet the criteria as described below:

3.1.1 General criteria

a) compliance with EU Structural Fund and state aid Regulations;

b) soundness in terms of business model, cash flows, partners, etc.;

c) shall form part of Integrated Plans for Sustainable Urban Development;

d) shall be structured in such a way so that they generate revenue sufficient to repay any funding received from the UDF and satisfy EU Rules, including state aid requirements;

e) shall ensure economic and/or social benefit.

3.1.2 Criteria related to OP

a) compliance with relevant eligibility criteria as described in the OP;

b) Urban Projects shall contribute to the achievement of objectives (including the Output Targets);

c) Capable of being invested into projects by the date to be specified in the Operational Agreement, likely to be the end of 2014.

3.1.3 Financial and economic criteria

a) Financial criteria will differ according to the projects and the form of investment into these projects by the UDFs and shall be established by a UDF on a case by case basis. These criteria shall include, but not be limited to: internal rate of return, net present value, pay-back period, cash flow profile, availability and form of collateral (if required), other financial indicators typically used in credit analysis, etc. There are no specific requirements imposed on Urban Projects with respect to financial criteria other than those described in the relevant JESSICA legislation. Each applicant shall present their views on what financial criteria shall be met by Urban Projects in order to achieve desired objectives, which shall be set out in the UDF's investment strategy to be agreed with EIB. It is acknowledged that for some Urban Projects included in its Offer precise calculation of financial indicators may not be possible at the time of presenting the Offer. In such cases the Offer may still be acceptable.

b) The assessment of Urban Projects as regards their economic sustainability and impact should include the following aspects of the projects: cost/benefit analysis (where possible to prepare), contribution to meeting relevant Output Targets of the OP, potential to attract additional funding from other public and private sources, potential to attract investors in other projects, which would be complementary or which could create economic or social synergies.

PART C

PARTNERS' EXPERIENCES AND PROJECTS DESCRIPTION

VIII. REGION OF TUSCANY CONTRIBUTION

1. The Tuscan experience in urban planning: PIUSS

1.1 Introduction

PIUSS is the Italian acronym for "Integrated Plans for Sustainable Urban Development" (IPSUD), which are funded under the Regional Operational Program co-financed by ERDF for the programming period 2007-2013.

Before describing their main features of the PIUSS, it is important to underline that the urban dimension in Tuscan 2007-2013 OP is not only related to the PIUSS plans. On the contrary, the urban issue is an element included in every priority axe of the program: first of all with regard to initiatives and projects for promoting research, development, technology transfer and innovation; secondly with regard to projects dealing with environmental sustainability and to projects concerning energy efficiency and development of renewable sources which certainly have an urban emphasis; thirdly with regard to those projects aimed at mitigating problems of material accessibility to the urban areas and of intangible accessibility related to the development of the information society.

The urban dimension is therefore a mainstreaming of the Tuscan 2007-2013 OP and the resources allocated to urban areas amount of 235.4 million Euro of ERDF (out of 338.4 million Euro ERDF co-financing at programme level) which represents the 70% of the total ERDF at programme level. The Tuscan operational programme co-financed by ERDF is composed of 5 axes (plus a sixth axe for technical assistance) and the PIUSS represent an instrument to carry out the economic and social development policies in urban areas as outlined in the 5th Axis of the Regional Operational Programme, in line with the provisions of the Regional Development Plan (RDP) and of the Territorial Action Plan (TAP). The resources available throughout the programming period are about 134 million Euros, about 45 of which allocated by the EU Funds (ERDF).

Priority Axes	Intensity of intervention in urban areas	Esteemed ERDF co-financing in urban areas (Meuro)
I – R&D, innovation, entrepreneurship	partially but predominantly	110.2
II – Environmental sustainability	partially	12.1
III - Competitiveness and sustainability of energy production	partially	7.9
IV - Transport services and accessibility	partially	60.4
V – Enhance sustainable territorial development	partially but predominantly	44.8
TOTAL (out of 338.4 **Meuro ERDF co-financing at programme level)**		235.4
% on TOTAL ERDF		69.6%

Source: Region of Tuscany

1.2 Definition and purposes of the PIUSS

The Tuscan "Integrated Plans for Sustainable Urban Development" are defined as a coordinated set of public and private interventions aimed at implementing – in terms of sustainability - objectives for socio-economic development through the improvement of urban and environmental quality and a rational use of urban spaces. They envisage an integrated approach including 5 types of interventions.

The focus is on the urban regeneration and therefore – according to the EU Regulations - they operate through recovery, upgrading, conversion and enhancement of existing urban heritage. No new interventions are allowed but in case of completion and integration of existing urban complexes.

1.3 PIUSS content

The Tuscan "Integrated Plans for Sustainable Urban Development" are provided with a set of rules approved by the regional government. According to them the PIUSS may only include infrastructural projects concerning 5 fields of interventions:

- infrastructure for economic development (i.e. businesses service centres, centres of competence for SMEs, infrastructure for manufacturing areas or high-tech service industry, etc.);

- tourism facilities (such as yachting, as significant for urban areas on the coast, conference and exhibition centres, spas, market areas, etc.);

- social infrastructure, a very qualifying kind of infrastructure including on the one hand those for the safeguarding of the rights of social citizenship (such as Day-care for at-risk people, centres carrying out activities providing support to disadvantaged people, hospitality centres aimed at fostering inter-culture, etc.) and on the other hand services for children younger than six (nursery schools, kindergartens);

- intervention aimed at promoting and enhancing the cultural heritage.

1.4 PIUSS criteria

The above mentioned set of rules concerning the Tuscan PIUSS envisage three different kinds of criteria, as synthetically listed below:

1. <u>Eligibility criteria</u>

- Municipalities with at least 20,000 inhabitants;
- Territorial contiguity of the areas included in the plan;
- Financial dimension between 20 and 50 million Euros and adequate stage of planning;
- Presence of operations from at least three different types of interventions;
- Convocation of a conference at Municipality level to concert the plan among the local stakeholders and drawing up and signing of a final agreement;
- Consistency with objectives and provisions for the implementation of the Tuscan 2007-2013 and the TAP (Territorial Action Plan)

Only Municipalities with a resident population over 20,000 inhabitants are eligible (that means 36 Municipalities out of 287 in the whole region). The areas included in one plan have to be contiguous/adjacent and can be a delimited territory of one single municipality or of two or more municipalities that are contiguous to each other. The plans have an agreed financial dimension, namely the minimum and the maximum dimension of the eligible public expenditure is between 20 and 50 million Euro. In order to ensure the integration, it is required that the plan has at least three different types of infrastructural operations among those listed before.

2. Selection criteria (as required by OP and approved by the Monitoring Committee)

For each eligible PIUSS proposal there are 100 points available, distributed as indicated below:

- Level of internal and external concistency (maximum 15 points)
- Level of integration with the OP's cross-strategies (max 30 points)
- Project quality (maximum 50 points), taking into account:
  - Functional integration of operations and their capacity to be related to other operations on the reference territory
  - Importance of the functions and services implemented with regard to the objectives of urban competitiveness and local welfare
  - Level of sustainability on financial, economic, employment and local welfare plane
  - Quality of the management tools of the plan and of its individual operations
- Level of the concertation process and quality of the participatory process (max 5 points)

The internal and external consistency is related to the integration at programming level since the plans have to be integrated not only with the rest of the regional programming but also with the programming documents at local level.

The integration with cross-sectoral strategies of the OP is related to the environmental sustainability, equal opportunities and non-discrimination which have been the principles for the implementation of structural funds for years.

Half of the points are for the project quality, subdivided among 4 elements:

First of all a functional integration of the operations is required because the projects included in an integrated plan must be integrated with each other.

As second factor the project quality is assessed in relation to the relevance of functions and services generated with regard to the objectives of urban competitiveness and local welfare (i.e. the regional body wants the project to implement services that provide value added to the welfare of local population).

The third aspect is very qualifying and necessary, and it concerns the financial and economic sustainability (that is the sustainability on a financial, economic, employment and local well-being level).

The fourth element is more related to the following stage of implementation of the projects, namely the life of the project (management, quality of the managing tools at plan level and for each single project). Finally the last 5 points are given taking into account the level of participation of the various stakeholders (the effectiveness of the participatory process).

3. Rewarding criteria

- Technical feasibility of each PIUSS and of its single operations: stage of the town-planning, chrono-program for the implementation;
- Public and private funding available at local level on the total cost of the project:
  - Co-financing required (funds already available on the total amount of the overall public expenditure)
  - Co-financing rate from private bodies that participate in the Implementation of the PIUSS

These incentive criteria are expected to add score to the plans that have the following features: firstly those with a higher level of technical feasibility. The minimum level strictly required by the call for proposals is the preliminary project. Those projects presenting a more advanced planning level can be rewarded with an additional score. Secondly, an additional score will be given to those plans already provided with public and private funding available locally.

1.5 Participation, governance and planning

The whole procedure of the PIUSS planning was characterised by a bottom-up approach. It is essential to convene a conference to concert the plan ensuring the broadest participation of stakeholders and partnership. The Municipalities involve all the stakeholders of their areas (public bodies, economic categories, social associations, etc.) and informe citizens of the opportunities offered by the European OP for the funding of important projects that can have a strong impact on the city life. The expected output of the conference is the drawing up of an agreement of cooperation. At the end all plans have to present another level of integration, as they must be consistent with the objectives and provisions for the implementation not only of the ERDF operational programme, but also of the territorial action plan and the regional programming in general.

The participation and the governance of the plans are very important and qualifying. There is a local coordination (as said before) and a regional coordination with different roles.

At regional level the first step was the drawing up of the call for proposal which was launched on the 13th of June 2008. After the submitting of the proposals (deadline 9th March 2009) the regional administration coordinated the procedures to certify the formal eligibility and the evaluation of the applications. An Evaluation Committee was set up at regional level on March 2009. During the evaluation process (six months) it was possible to assess how many projects complied with the established rules and could be declared eligible, to define a ranking of the submitted plans, to determine which and how many projects could be funded in relation to their quality and to the available resources.

1.6 Some figures

The most significant figures to point out in order to give an idea of the quantitative output of the PIUSS call are to be found here below:

> 21 Tuscan Municipalities involved

> 280 eligible projects (out of 323 submitted projects), distributed as follows:

100 projects for infrastructure for tourism and trade

82 projects for infrastructure for culture

26 projects for infrastructures for economic development

56 projects for social infrastructure

16 projects for infrastructure for childhood

> 43 not eligible projects

> 16 eligible PIUSS (out of 17 submitted proposals)

> 548,6 mil.€: overall eligible cost

> 304,4 mil.€: co-financing required

> 133,6 mil.€: funds available under the Tuscan ERDF programme

> 121 projects funded with the available resources

Together with the classification of the 16 PIUSS, the Evaluation Committee approved also a subdivision of the 280 projects into 2 groups. On the one hand 184 were declared as "key projects" (that is projects whose importance is crucial and strategic for carrying out the whole plans). On the other hand 96 were declared as "functional projects" (which are connected to the key projects but whose execution is subordinated to the them).

As regards the level of integration and the percentage impact per kind of infrastructure, the submitted projects are particularly concentrated on the measures for tourism/trade (30%) and for the regeneration of cultural heritage (40%), but it is important to point out a good presence of projects in the social field (16%) and for the economic development (14%).

2. Final remarks on PIUSS procedure

The quantitative outcome of the Tuscan PIUSS gives indirect evidence of the effort of the territory (primarily of the 21 Municipalities involved) in designing integrated plans. A positive and successful experience at local level, even more significant particularly if we think about the level of conditionality to access the financial support and the characteristics of the rather rigid call for proposals.

According to this perspective the actions envisaged by the plans can gain an even higher value than what originally expected. Such actions will be implemented in poor urban settings, to be revitalized and rehabilitated in physical terms and to be given back to a stable presence of residents and city users. Therefore, thanks to the "Integrated Plans for Sustainable Urban Development" city areas take on a new life, and neglected areas or outskirts become new urban centres; moreover, where the local conditions so allow, due to the presence of particular buildings and monumental or specially equipped structures, these are turned also into new "centres of attraction" in areas that generally go beyond the city's borders. And thus does the polycentric city take shape, with a concrete proposal that is moulded at the Municipal level where solutions are provided to develop the territory and where strategies are devised for new forms of urban dynamism, within the scope of the potentialities of urbanised areas and without further 'consuming' the land.

The challenge now is not only to enhance this work and this urban planning experience, but at the same time to find a reasonable solution to reduce the distance that exists between the co-financing required and the resources available at OP level and possibly to find another way to use the available resources moving them from the traditional grant-giving approach to a repayable contribution system (revolving instruments).

3. JESSICA in the Region of Tuscany

The first EIB Evaluation Study for the Tuscan Region was launched on February 2008 with the aim of being the pilot project for the implementation of JESSICA in Centre-North Italy. The Study was concluded on February 2009 and produced as main results:

- the specification of the jessicability criteria
- the simulation of the jessicable criteria on closed and already funded projects (under the previous programming period 2000-2006).

The application of the above mentioned criteria at PIUSS level was not possible since the call for tender and the evaluation process were still open.

However, this first Study did not provide an analysis of the structure and of the working modality of UDFs, considering that it was one of the first Evaluation Study leaded by the EIB among Europe.

Considering the experiences in Porto and Andalucia, the Region of Tuscany decided to agree for a second phase of the Evaluation Study that started at the beginning of 2010. Three pilot projects have already been selected among the PIUSS projects. A comparative analysis and a feasibility study will be carried out on them in order to verify the convenience of a Jessica UDF and/or other alternative forms of co-financing and structuring with the banking system or with other private entities.

IX. GREATER MANCHESTER CONTRIBUTION

1. Why Greater Manchester is interested in Jessica

The primary motivation for interest in Jessica as a funding method for Greater Manchester is the decline in the availability of ERDF funding. Over the programming period 2000-2006 to the 2007-2013 period we have seen a decrease of approximately 50% in the amount of ERDF funding (from €826m ERDF to €448m ERDF) which is available for the North West of England region (excluding Merseyside) and so a similar reduction for the city-region too. It is anticipated that this decline will continue into the next (post 2013) programming period.

The financial engineering models offered by Jessica are not a novel concept for the UK, examples of Asset Backed Vehicles such as Ashtenne in the North West and Blueprint in the East Midlands have served as models in the shaping of the Jessica initiative at the European level. The attraction of Jessica then, is the ability to recycle and so retain ERDF funding for urban development projects beyond the life of the ERDF Operational Programme itself.

The idea of a city-region level Urban Development Fund was also attractive to Greater Manchester and fitted well with the ambitions of Greater Manchester to develop as a city-region with devolved governance powers. To this end Greater Manchester sought, under article 42 of the General Regulation of the Structural Funds, a devolved allocation of funding to the city region. Although this proved not to be possible to implement, Jessica remained an attractive method for attracting funding specifically for Urban development to the city-region.

It is worth explaining that the North West of England is a large region both spatially and, with some 7 million inhabitants has a population larger than 11 EU Member States. The region is geographically large and diverse, with large rural areas of low population and two major and high density population centres in Manchester and Liverpool, as well as smaller cities like Preston and Carlisle. For EU Structural Funding purposes the North West is divided into two areas – Merseyside, which is a former Objective 1 area and now has phasing in status; and the Rest of the North West (RoNW).

Greater Manchester is the largest metropolitan area in the UK outside London and has a population of 2.6 million, making it larger than 6 EU Member States and is a major economic driver of the North West. It is made up of ten Local Authority areas: Bolton, Bury, Manchester, Oldham, Rochdale, Salford, Stockport, Tameside, Trafford and Wigan which work together as the Association of Greater Manchester Authorities.

2. State of Implementation

Managing Authority Level

Jessica has been a feature of the North West Operational Programme for ERDF (NWOP) since 2006, when at the request of Greater Manchester partners, reference to Jessica and Jeremie was included in the operational programme. Since then development of Jessica has been slow (although this has been the case across the EU, and is not solely a North West or UK issue), although a Holding Fund – the North West Urban Investment Fund (NWUIF) – has been in existence since December 2009.

The creation of the Jessica NWUIF has had a double benefit for the North West, firstly in creating a £100m Urban Investment Fund (£50 million ERDF, £50 million match funding), secondly, the creation of the fund enabled the NWOP to meet the first, challenging N+2 target of the programme.

The £100 million fund is divided between Merseyside and the RoNW areas of the programme on a 60 / 40 split at the holding fund level. This means that £30 million of the ERDF comes from the Merseyside allocation and £20 million comes from the RoNW allocation. These allocations must be match funded within their respective geographical areas and also spent within those areas. Although matched within the NWUIF with resources from the North West Development Agency (NWDA – managing authority in the North West), when the funding is allocated to Urban Development Funds this match will be exchanged for project assets and funding.

Of the £20 million available for the RoNW, this is further divided into £10 million for Greater Manchester and £10 million for the RoNW outside Greater Manchester. In addition to this, a further £10 million of NWDA funding (non-ERDF) will be made available for the funding of projects in either area (but not Merseyside) which fit with the priorities of the fund. This means that within the North West Urban Investment Fund there is a total of £60 million available to bid for, split across two UDFs which will have an allocation of £30 million each. Each UDF will require matching funding or assets of a value of £30 million too.

The NWUIF is managed by an Investment Advisory Board made up of:

Senior NWDA (Managing Authority) staff:

- Steven Broomhead
- Ian Haythornthwaite

Sub-regionally appointed representatives:

- Sir Howard Bernstein, Chief Executive, Manchester City Council
- Cllr Phil Davies, Wirral Metropolitan Borough Council
- Cllr Keith Sedgewick, Preston City Council

Independent members:

- Tim Johnston, Partner, Amion Consulting
- Tom Russell, former Chief Executive, New East Manchester URC
- Steve Burnett, former CEO Royal Liver Insurance

Plus

- Deborah McLaughlin, Regional Director NW, Homes and Communities Agency
- Dominic Brankin, Government Office for the North West (Observer)

On the 29th March 2010 the European Investment Bank issued a call for tenders for interested parties to bid to manage a UDF in *either* Merseyside or the RoNW area (applications for both are not allowed).

Partner Level

As the call for proposals has now been issued partners in both Greater Manchester and the other sub-regions in the North West, outside Merseyside are now in discussion about potential applications. It is intended to hold a bidders briefing event for parties who may be interested in this process on the 8th April, however at the time of writing no further information was available about this.

As the process has only just begun and is commercially sensitive no information can be provided in this report, however more may become available after the closure of the call for proposals on the 23rd April 2010. It is likely however that this project will have closed before significant information about detailed operation of Jessica in Greater Manchester and the North West of England can be provided.

The RoNW UDF allocation is also further complicated by having within it separate allocations for Greater Manchester (£10 million ERDF) and the other NW Sub-regions (£10 million ERDF) which must all be managed as one Urban Development Fund

3. Main problems – criticism – considerations on the implementation of Jessica

It seems sensible to look at the issues that have been encountered in developing a Jessica programme at two levels, firstly at the EU level, in terms of some lack of clarity over the operation of Jessica schemes, and also at the City-region (Greater Manchester) level to see the impact of such a lack of clarity at EU level and also differences of opinion between the Managing Authority and Greater Manchester.

EU Level

Much of the difficulty at this level is likely to be covered elsewhere in this report however there are a number of issues and questions which have been raised in the NW England, which have also been echoed by other partners in the Jessica for Cities project and which have also been formally raised with the European Commission by the lead partner of this project.

These questions tend to be of an operational and technical nature, however they are also fundamental to the operation of Jessica at an EU level.

These questions have included issues concerning the State Aid implications of returns to private sector partners in an Urban Development Fund; ownership of land and assets which are placed into the UDF as matching funding; the re-use of resources and what requirements apply to this; who will be considered the final beneficiary of the UDF / ERDF component of the UDF; how state aid impacts on the operation of Jessica in general, but also in non-assisted areas – can a Jessica programme realistically operate in such areas; how to balance the need for commercial returns against wider regeneration priorities and requirements.

Some of these concerns have been addressed by the European Commission and the European Investment Bank, however we understand that there will be a new guidance note issued this year from COCOF which will finally clarify a number of issues around the implementation and operation of Jessica at an EU level.

The paragraph above perhaps best illustrates the problems and frustrations in developing Jessica across the EU – the initiative was first proposed by the European Commission in late 2005 or early 2006 and yet nearly five years later we are still awaiting guidance on how exactly the initiative should work. There is obviously a need for clear guidelines for a complex operation which will need to be able to work in the different economic and legislative environments of 27 Member States, however it would be helpful to have such guidance in place at the launch of an initiative rather than having to try to understand the regulatory framework of the initiative while developing programmes.

Partner level

This lack of clarity has been equally frustrating in trying to develop responses to Jessica at the level of City-region. Greater Manchester has been instrumental in securing a Jessica initiative for the region – without our intervention there would not have been the facility for Jessica within the NWOP – and also held a seminar with representatives of the EIB to discuss Jessica in November 2007[5] to try to get an early understanding of how Jessica might benefit Greater Manchester.

This seminar led to initial thoughts of using existing Managed Workspace and Employment Land programmes and projects as Jessica schemes which would allow an initial ERDF investment and allow subsequent investment into non-ERDF activities. It was not clear at this stage however, which parts (if any) of the NWOP would be used for Jessica, and so it was very difficult to hold meaningful discussions with representatives of the private and public sector who might be interested in developing "Jessicable" projects beyond basic discussion of how Jessica was expected to operate and the sorts of projects which might generate appropriate returns. This issue has also made it impossible to hold Urbact Local Support Group meetings in Greater Manchester – we have not had enough clear information available to be able to interest potential partners (either public or private).

Most of the areas of the United Kingdom have a preponderance of strategic development documents and the North West and Greater Manchester are no different in this respect. For this reason it was not felt to be necessary to create separate and specific Integrated Programmes for Sustainable Urban Development, rather that existing strategies could become IPSUDs for the purpose of Jessica. While this approach has spared the writing and creation of yet another strategy, it has meant that there has been a lack of focus for Jessica activities in the region other than the selected measures of the NWOP.

The two measures of the NWOP selected for the Jessica initiative are:

3.2 – Developing high quality sites and premises of regional importance;

4.3 – Supporting employment creation for areas of regeneration need;

which are sensible and relevant measures within which Jessica can function. However, a criticism that has been levelled by partners at this approach, and especially by partners in the major metropolitan areas, is that this approach is too generic. Measure 3.2 for instance contains 36 sites of strategic regional importance for development, however not all of these will be suitable for Jessica investment and not all of them are in urban areas. This lack of a specific Jessica focus has made it almost impossible for

5 12th November 2007, Jessica seminar with Frank Lee and Brian Field

partners in the NW England to come up with specific and strategic responses to the Jessica initiative until the issuing of the call for tenders by the EIB in March 2010.

There have also been a number of issues which have been the source of significant discussion at the regional Programme Monitoring Committee meetings.

Recycling of resources

This has been a major concern for all sub-regional partners. Until discussions at the Investment Advisory Board it was not clear where Jessica returns would recycle to – the UDF or the Holding Fund. At the Managing Authority level this was perceived as being an issue for Merseyside more than elsewhere as the view was that Merseyside would wish to protect funding allocated through phasing-in status for as long as possible.

The real motivation behind this concern however, was a question of motivation to have or become a UDF and applied equally to all interested parties, and can be summed up simply in that without a guarantee of returns recycling to the UDF there is no incentive to become a UDF at all.

Discussions with NWDA had indicated that the intention would be for investment returns to go back to the Holding Fund for redistribution, which would with either be to the originating UDF but could also be a UDF elsewhere in the region.

From the point of view of a UDF which will take the burden of risk in an investment as well as the risks associated with ERDF compliance and the burden of meeting ERDF regulations, if any returns could then recycle to another UDF then there is no incentive to take the initial risk and burden of the ERDF requirements – it would be more sensible to wait for a later round of UDF tendering.

This issue has now been addressed by the Investment Advisory Board and the tender documentation now allows for a ten year period of operation of the UDF before returns begin to be paid to the Holding Fund. This allows for some certainty from the point of view of fund management in terms of time scale for investments and thus promotes the development of a portfolio of investment projects, not all of which will have to comply with ERDF regulations and requirements.

Specific areas for investment

Another area of concern for Greater Manchester, and the source of significant discussion in the region was the need to target the limited resources of Jessica at appropriate urban areas. The large metropolitan areas understandably felt that targeting within the large urban conurbations of the region

(Greater Manchester and Liverpool / Merseyside) would bring the best results and ensure targeting of limited resources in specific areas. This view of course was not shared by other sub-regional areas, which although not predominantly urban do have urban areas within them. This view was also not shared by the managing authority, which has a responsibility to invest in the entire region and not just pockets of it.

These discussions have resulted in the tender documentation having specific amounts of funding being reserved for Greater Manchester and other parts of the region (in addition to the specific phasing-in allocation for Merseyside), which is a workable compromise to ensure targeting of resources without excluding areas from access to Jessica resources.

4. Additional Concerns

There are a number of additional concerns which are shared by most partners in the NW, mostly of a technical and operational nature, to do with:

- the nature and scale of ERDF outputs required by Jessica – are these realistic for a new way of working with ERDF?

- ERDF Clawback – if outputs or other ERDF performance requirements are not met how will ERDF clawback work? Will this come from the project (which is expected to repay the ERDF anyway), will this come from the UDF (which again is expected to repay investments to the holding fund) or will this come from the Holding Fund (which will have an impact on the sustainability of the fund, in effect penalising the holding fund for project level non-performance)?

- Should investments fail to generate the expected return will this be regarded as non-performance, and if so how will this be dealt with?

- If there is no interest in Jessica in the current economic climate will it be possible to return Holding Fund resources to the NWOP?

- Is it feasible from a State Aid point of view to have differing rates / periods of return for private and public investors in a fund?

- How will UDFs balance the commercial returns required by Jessica with the more economic development and socially focused outputs and outcomes required by ERDF?

It is hoped that many of these questions will be answered either in COCOF notes or through the development of UDFs in the region, however this does once again serve to highlight perhaps some of the difficulties in developing the Jessica initiative – that we are still in a process of trying to clarify how it will operate even after such a lengthy period of discussion and development.

X. PORTO VIVO SRU CONTRIBUTION

1. Case Study: Action Programme for the Urban Rehabilitation of Morro da Sé_CH.1

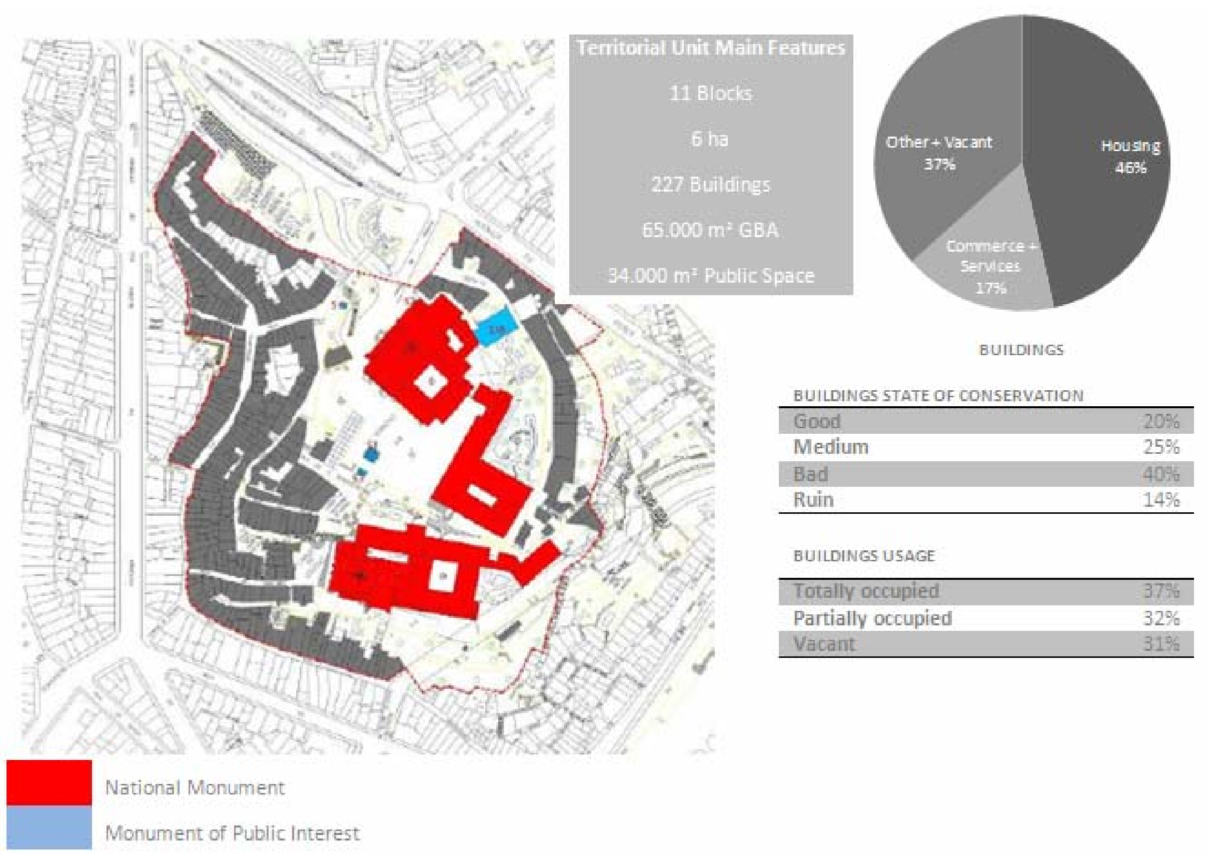
Introduction

Porto Vivo, SRU has adopted, since 2004, the urban rehabilitation process of Porto city centre as a priority. Like other Portuguese or even European historic centres, Porto's has common problems of buildings' degradation, economic downturn, shrinking and impoverished population. This was the reason why, in 2000, the Government established the Critical Area of Urban Rehabilitation and Reconversion (ACRRU) for all the central area of the city. ACRRU represents 8 civil parishes, which include the Historic Centre and the urban sprawl of the 19th century. The area of Morro da Sé is right in the historic centre of Porto, is its urban cradle, and represents serious problems of urban decline. It was therefore the area addressed in the first action programme designed to apply to ERDF funding when Partnerships for Urban Regeneration was first launched, in 2007, by the Operational Programme. Due to its integrative perspective, the Action Programme for the Urban Rehabilitation of Morro da Sé_CH.1 is regarded as one of the most 'jessicable' projects of Porto Vivo, SRU, and, as such, a detailed analysis of this project is presented herewith.

Figure 1: Area of Intervention of the Action Programme for the Urban Rehabilitation of Morro da Sé_CH.1

Morro da Sé Intervention Area

Morro da Sé, located at the heart of the historic center of Porto, which was classified by UNESCO as World Heritage in 1996, is an area with high relevance in terms of the city's identity, tourism and due to its historic, artistic and cultural value. This is a territory which suffered from progressive social and urban deterioration, though having maintained a prevalence of a residential function, combined with some commerce activity. Nevertheless, its economic activity has been declining during the past years, combined with its negative image among the population, as a place where drugs traffic and consumption occurs, with derelict buildings and perceived unsafety, and with several mobility problems.



Source: Porto Vivo, SRU (2008)

Figure 2: Morro da Sé Main Territorial Features

The Action Programme and the Public-Private Partnership

The Action Programme for the Urban Rehabilitation of Morro da Sé_CH.1 was an application to the call of Partnerships for Urban Regeneration (PRU/1/2007)_ON.2, launched in 2007, and consisted of a project with the key objective of regenerating Morro da Sé area. The project triggers the creation of new dynamics and the development of touristic activity, as well as to give better living conditions to the population. Rehabilitation projects, including the creation of a touristic accommodation unit and a students' residence unit, the extension of an assisted living residence for elderly people, and public space requalification, are part of the Action Programme. The estimated investment reaches almost 40 million Euros, shared between the public sector (36%), the private sector (45%) and Structural Funds (19%).

Partners:
PORTO VIVO Sociedade de Reabilitação Urbana · PORTO Câmara Municipal · novopca IMOBILIÁRIA · PortoDigital · WIDESCREEN Produção e Distribuição de Produtos Audiovisuais e Multimédia, Lda.
Co-financing:
ON.2 O NOVO NORTE Programa Operacional Regional do Norte · QREN Quadro de Referência Estratégico Nacional Portugal 2007.2013 · União Europeia Fundo Europeu de Desenvolvimento Regional

Source: Porto Vivo, SRU (2008)

Table 1: List of Partners and Co-financing Entities of the Action Programme for the Urban Rehabilitation of Morro da Sé_CH.1, Beneficiary of Partnerships for Urban Regeneration (PRU/1/2007)_ON.2

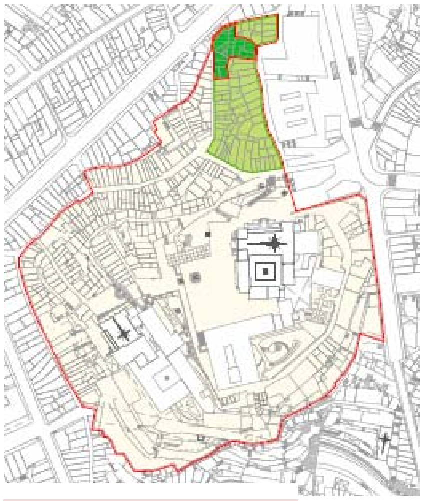
Porto Vivo, SRU is the main responsible for the Action Programme, leading the public-private partnership. Each operation has a management structure to support and coordinate the entities in charge and to control the level of execution. A protocol was signed, in April 2008, between the public entities (the Municipality of Porto, Porto Vivo, SRU, among others) and NOVOPCA (a private construction company), establishing the conditions of the partnership, including NOVOPCA's responsibility for the construction and operation of the students' residence.

Objectives and Priorities of the Action Programme

Having as general goal the revitalisation of Morro da Sé, an Urban Study was conducted, which established a set of objectives and vectors, namely:

Objectives	**- spatial integration of Sé in the downtown context** **- rehabilitation of the buildings** **- physical rehabilitation of the built heritage** **- valorisation of citizenship patterns** **- attraction of new residents targeting social equilibrium** **- dynamisation of the structural axis D. Hugo Street and D. Pedro Victorino Forecourt**

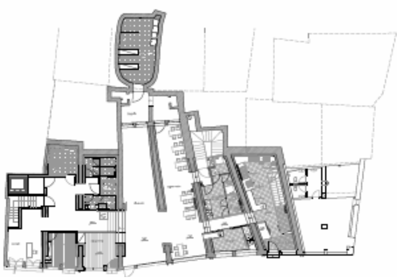
Vectors	- implementation of the Urban Area Management - promotion of institutional partnerships - supply of supporting mechanisms to building rehabilitation, targeting the improvement of the residents' living conditions - offer of different residential typologies appropriate to trigger the attraction of varied community sectors, mainly the ones with origin in the area, young families and students - increase the offer of touristic accommodation - creation of centers and axis for the economic activities concentration - improvement of the usage conditions of the public space - increase of the mobility and consolidation of crossing routes



Tourist Accommodation Unit

Students Residence

Extension and Upgrading of an Assisted Living Residence for Elderly



List of Operations of the Action Programme and Expected Results

The Action Programme of Morro da Sé_CH.1 consists of the following operations:

1. **Creation of a Students Residence**
2. **Creation of a Tourist Accommodation Unit**
3. **Extension of an Assisted Living Residence for Elderly**
4. **Urban Image and Energy Efficiency Improvement**
5. **Public Space Improvement**
6. **Creation of the Property Owners Support Office**
7. **Installation and Startup of Urban Area Management (UAM)**
8. **UAM / Entrepreneurship Project**
9. **UAM / Stories of Self-esteem / workshops**
10. **UAM / Documentary**
11. **Creation of a Technical Support Structure**
12. **Communication Plan**

EXPECTED RESULTS OF THE INTERVENTION

Tourist Accommodation Unit:

6 reparcelled buildings; 45 bedrooms; 90 beds; 1 restaurant and a bar.

Students Residence:

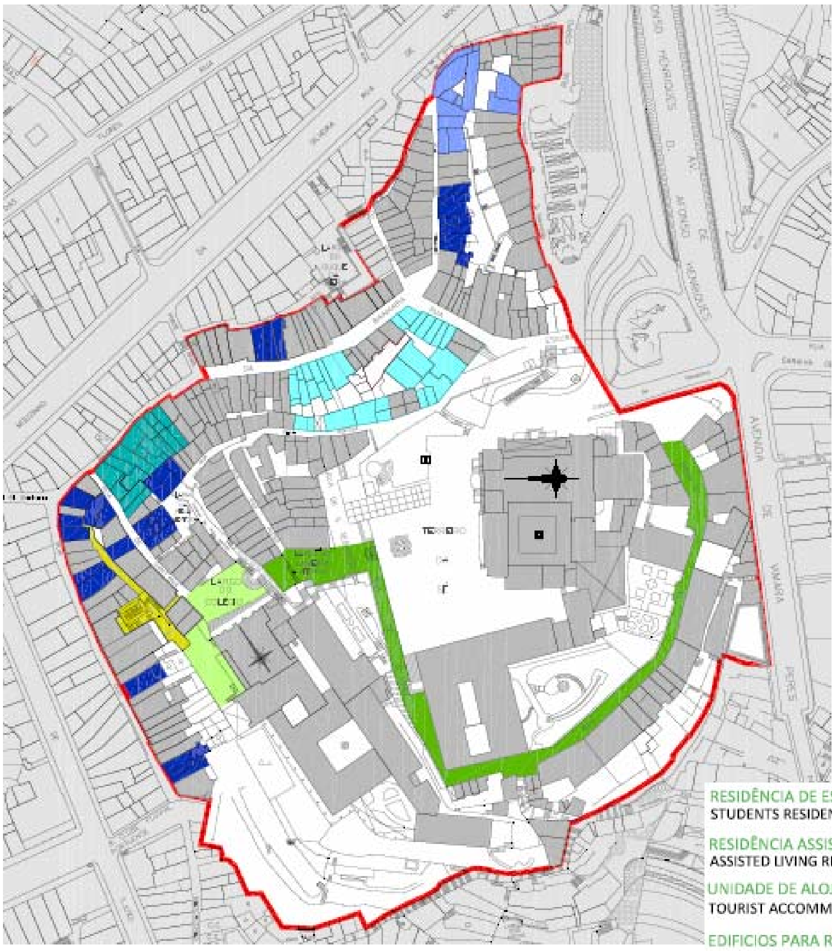
22 reparcelled buildings; 89 single studios; 12 double studios; 4 studios; 10 shops; 1 restaurant and a bar; garage for 5 cars; 121 students.

Extension of an Assisted Living Residence for Elderly:

Extension and upgrading of an Assisted Living Residence for Elderly from 6 to 12 bedrooms; Accommodation capacity for 18 users.

Resettlement Programme:

Permanent resettlement programme: 26 buildings; 18 studios; 1 bedroom apartments - 26; 2 bedrooms apartments – 18; 3 bedrooms apartments – 9.



Source: Porto Vivo, SRU (2008)

Figure 3: Operations part of the Action Programme of Morro da Sé_CH.1

State-of-the-art

At May 2010, the Execution Projects were already completed for the construction works of the Students Residence, the Tourist Accommodation Unit, the extension of the Assisted Living Residence for Elderly and of the Public Space Improvement, as well as the first archaeological surveys were concluded (one of which has uncovered a fortified wall from the Celtic period, dated from the 2nd century BC, totally unknown until the present day). It is expected that still during the first semester of 2010 the contract works will be in place.

Porto Vivo, SRU has already strongly invested in this Programme, acquiring until this point 26 buildings and having temporally relocated 19 families, who will be brought again to Morro da Sé as soon as the living conditions are replaced. Simultaneously, the Architectural Projects are being developed, and it is expected that the works' investment, in 2010, will be about 5% of the total amount estimated, with the financial support of the EIB, having scheduled, for 2011, 60% of the remaining investment and, in 2012, the last 35%.

With less dynamism we find the operation Urban Image and Energy Efficiency Improvement, since the construction works have not started yet, but which will have a strong impact on the energetic performance and comfort of buildings. Here we must also highlight that the interpretation by the Portuguese authorities of the Regulation (EC) No. 397/2009 of the European Parliament and of the European Council has blocked any European financial support to reach energy efficiency operations for existing houses in deprived areas, like it is the case of Morro da Sé.

As far as the intangible operations are concerned, the Urban Area Management Unit is installed and in activity, having begun the connections with the population and the local institutions and businesses, trying to implement its mission, that is, trying to develop the social and economic activities in Morro da Sé. Namely, it makes the connection with the Entrepreneurship Support Office, which, by its turn, has been supporting and following several projects within this area. The Urban Area Management Unit has been promoting "Stories of Self-esteem", delivered to the population on a theatrical format, and which will train, within specific joint workshops, agents to promote the Historic Centre and, specifically, Morro da Sé. The Documentary is also being conducted, and it will present the starting point and the physical, social and economic target of the Action Programme for the Urban Rehabilitation of Morro da Sé.

Step by step, the downtown and the Historic Centre of Porto is changing, rehabilitating and regenerating its urban tissue.

Financing Scheme

Considering a time period of three years (2009-2011) for the conclusion of the Action Programme, different entities are responsible for each operation, as showed on the next Table.

ACTION	RESPONSIBLE	FINANCIAL SOURCE
Rehabilitation of the buildings	Owners Porto Vivo, SRU	ERDF Own Assets
Students Residence	Private Partner Porto Vivo, SRU	
Tourist Accommodation Unit		
Public Space	Municipality of Porto	
Urban Area Management	Porto Vivo, SRU & Partners	

Source: Porto Vivo, SRU (2008)

Table 2: Entities Responsible for the Operations of the Action Programme of Morro da Sé_CH.1

Regarding the partnership for the operations 1 and 2, Porto Vivo, SRU, after establishing a protocol with the Municipality of Porto, became the leader of the urban intervention in Morro da Sé, responsible for developing the integrated plan, seeking the involvement of private entities.

The private partner, NOVOPCA II Investimentos Imobiliários, S.A., became responsible for the construction and operation of the Students' Residence and the Tourist Accommodation Unit, for 50 years, having Porto Vivo, SRU the responsibility of management of the leased houses. While Porto Vivo, SRU pays for the expropriation costs, NOVOPCA invests in the rehabilitation works of the Students' Residence and the Tourist Accommodation Unit. Summing to this investment made by NOVOPCA, the operation costs must also be considered as far as the two infrastructures are concerned. It was established that NOVOPCA will also pay to Porto VIVO, SRU 10% of the EBIT of the Tourist Accommodation Unit and 12.5% of the EBIT of the Students' Residence. Porto Vivo, SRU shall receive, in addition, the rent from the houses, while NOVOPCA will get the revenue from the operation of the Students' Residence and the Tourist Accommodation Unit.

	Investment	Revenue
NOVOPCA II Investimentos Imobiliários, S.A.	• construction of the students' residence: €4.9M (1 year) • construction of the tourist accommodation unit: €3M (2 years) • buildings rehabilitation: €6.6M	• estimated in €530k and operational cash costs in €219k (yearly updated according to inflation) • operational cash flow of €250k in the cruise year • 69 houses will be leased and the annual amount of expected rents is €140k
Porto Vivo, SRU	• expropriation costs: €2.6M • rehabilitation works: €6.6M • recovery of façades and roof tops: €0.8M	• Students' Residence, Tourist Accommodation Unit and the buildings (69) rents: circa €140k • 12.5% and 10% of the Students' Residence and the Tourist Accommodation Unit EBIT generated, respectively • NSRF grant for the façades of the buildings: €1.1 M

Source: JESSICA Evaluation Study (Deloitte and Parque Expo, 2009)

Table 3: Investment *vs.* Revenue of the Operations 1 and 2 of the Action Programme of Morro da Sé_CH.1

The balance between investment and revenue for Porto Vivo, SRU, as far as operations 1 and 2 are concerned, represents an IRR of 2.2%. Porto Vivo, SRU business plan also includes two loans from the European Investment Bank, totaling circa 10.4 millions of Euros, for a 30 years period and a grace period of 10 years, with an interest rate of 4.77%. The private partner, in turn, expects an IRR of 6.7% in the Students Residence (with a 17 years payback period), and of 7.1% in the Tourist Accommodation Unit (18 years payback period).

Possible JESSICA Form

If the project could be beneficiary of a JESSICA loan instead of a grant, as presented in the JESSICA Evaluation Study, by Deloitte and Parque Expo (2009), using approximately the same figures of the Action Programme of Morro da Sé_CH.1, JESSICA's estimated IRR, for a loan amounting 2.85 millions of Euros, would be 6.5%, with aggregated cash flows of 1.73 millions of Euros. The inflows include, therefore, interest (1.73 millions of Euros) and capital reimbursement (2.85 millions of Euros).

Next Table shows how JESSICA could benefit a project similar to the Action Programme of Morro da Sé_CH.1, under the form of a loan. Nevertheless, in the JESSICA Evaluation Study, by Deloitte and Parque Expo (2009), a similar exercise is made for the hypothesis of an equity presence of JESSICA in such a project.

USES AND SOURCES OF FUNDS																						
Projection year		TOTAL	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Activity year					1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
(k euro)																						
EBITDA		23,000	-	-	1,500	1,700	2,300	1,700	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Equity	30.00%	6,900	4,200	2,700	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SRU	30.00%	2,070	1,260	810	-						-	-	-	-	-	-	-	-	-	-	-	-
Private entity	60.00%	4,140	2,520	1,620	-						-	-	-	-	-	-	-	-	-	-	-	-
JESSICA	0.00%	-	-	-	-						-	-	-	-	-	-	-	-	-	-	-	-
Others (Owners, banks)	10.00%	690	420	270	-						-	-	-	-	-	-	-	-	-	-	-	-
Loan	70.00%	16,100	9,800	6,300	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Commercial loan	82.30%	13,250	8,065	5,185	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
JESSICA loan	17.70%	2,850	1,735	1,115	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grant	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Previous cash account			-	-	(0)	580	841	1,039	634	479	372	542	519	544	386	489	592	695	797	900	1,003	1,105
SOURCES			14,000	9,000	1,500	2,280	3,141	2,739	1,934	1,779	1,672	1,842	1,819	1,844	1,686	1,789	1,892	1,995	2,097	2,200	2,303	2,405
Investment expenses		23,000	14,000	9,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rehabilitation works - public spaces		5,000	2,500	2,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Eligible investment		3,000	1,500	1,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-eligible investment		2,000	1,000	1,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rehabilitation works - buildings for sale		8,000	4,000	4,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Eligible investment		2,000	1,000	1,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-eligible investment		6,000	3,000	3,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rehabilitation works - comercial area for rent		5,000	2,500	2,500	-	-	-	-	-	-								-	-	-	-	-
Eligible investment		2,000	1,000	1,000	-	-	-	-	-	-								-	-	-	-	-
Non-eligible investment		3,000	1,500	1,500	-	-	-	-	-	-								-	-	-	-	-
Rehabilitation works - Students residence		2,000	2,000	-	-	-	-	-	-	-								-	-	-	-	-
Eligible investment		1,000	1,000	-						-								-	-	-	-	-
Non-eligible investment		1,000	1,000	-						-	-	-	-	-	-	-	-	-	-	-	-	-
Rehabilitation works - Hotel		3,000	3,000	-						-	-	-	-	-	-	-						-
Eligible investment		1,500	1,500							-	-	-	-	-	-	-						-
Non-eligible investment		1,500	1,500	-	-	-	-	-	-	-	-	-	-	-	-	-						-
Working capital desinvestment		(8,000)	-	-	(800)	(1,600)	(4,000)	(1,600)	-	-	-	-	-	-	-	-	-					-
Recovery of investment expenses (buildings for sale		(8,000)	-	-	(800)	(1,600)	(4,000)	(1,600)	-	-	-	-	-	-	-	-	-					-
Debt repayment		16,100	-	-	700	2,000	5,000	3,000	1,000	1,000	770	1,000	1,000	630	-	-	-	-		-	-	-
Commercial loan		13,250	-	-	700	2,000	5,000	3,000	1,000	1,000	550	-	-	-	-	-	-	-	-	-	-	-
JESSICA loan		2,850	-	-	-	-	-	-	-	-	220	1,000	1,000	630								
Cash account			-	(0)	580	841	1,039	634	479	372	542	519	544	386	489	592	695	797	900	1,003	1,105	-
Financial costs			-	637	1,047	1,001	871	546	351	286	221	171	106	41	-	-	-	-	-	-	-	-
Commercial loan	6.50%	3,550	-	524	861	816	686	361	166	101	36	0	0	0	0	0	0	0	0	0	0	0
JESSICA loan	6.50%	1,727	-	113	185	185	185	185	185	185	185	171	106	41	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Income taxes		2,683	-	(169)	(27)	38	231	159	104	121	139	152	169	186	197	197	197	197	197	197	197	197
Dividends		9,340	-	(468)	-	-	-	-	-	-	-	-	-	600	1,000	1,000	1,000	1,000	1,000	1,000	1,000	2,208
USES			14,000	9,000	1,500	2,280	3,141	2,739	1,934	1,779	1,672	1,842	1,819	1,844	1,686	1,789	1,892	1,995	2,097	2,200	2,303	2,405

JESSICA enters with €2.85M in loans (17.6%).

Total debt repayment is similar to the Base scenario, however JESSICA loan is paid after the commercial loan

JESSICA loan interest equal to Commercial loan interest.

Dividends are distributed equal to the Base scenario.

Source: JESSICA Evaluation Study (Deloitte and Parque Expo, 2009)

Table 4: Base Case Scenario, as presented in the JESSICA Evaluation Study, by Deloitte and Parque Expo (2009)

2. Present Context of the Partner State

Mostly because of a decreased domestic demand, the Portuguese economy registered a contraction of 2.7%, in 2009. Unsurprisingly, unemployment has reached historical highs, aggravating social problems. Summing to a sizeable external deficit, low domestic savings, low productivity growth and eroded competitiveness, Portugal faces a difficult path of recovery ahead. The Government response to the current crisis also affects public finances, raising the public deficit and debt to record highs. This response addresses essentially discretionary stimulus to the economy and some structural reform efforts. Fiscal measures also trigger public investment, social protection and support to employment, investment and exports by the private sector. Additionally, some measures were implemented to strengthen the financial stability, though the financial crisis on the Portuguese banking sector has been contained.

Nevertheless, the Portuguese economic growth will still be quite low in the 2010-2011 period. Projections sustain confidence from the moderate recovery in world demand and the gradual easing of financing conditions, though the expected slight increase in interest rates and the implementation of the fiscal consolidation measures included in the State Budget for 2010 and in the Stability and Growth Programme for 2010-2013. Moreover, government consumption and investment are expected to decline, in general, over the projection horizon, while external borrowing necessities will stand high (European Commission, European Economy n° 2|2010; Banco de Portugal, Economic Bulletin - Spring 2010).

Forecasts for Portugal	2008	2009	2010	2011
GDP growth (%)	0.0	-2.7	0.5	0.7
Unemployment (%)	7.7	9.6	9.9	9.9
Current account balance (% of GDP)	-12.1	-10.5	-10.1	-10.0
General Government balance (% of GDP)	-2.8	-9.4	-8.5	-7.9

Source: European Commission, European Economy n° 2|2010, 5 May 2010.

Table 5: Main Features of the Portuguese Forecast

Moreover, it is not clear at the present stage how the measures to contain the deficit and the public debt will affect the execution of the urban regeneration projects. Additionally, the growing differences of lending between the commercial banking entities may turn more difficult the creation of Urban Development Funds.

3. Legislative Constraints and Fiscal Incentives of Urban Regeneration within the Partner Context

After the Decree-Law 104/2004, of the 7th May, has given a new opportunity for the revitalisation of cities, enabling the establishment of Urban Rehabilitation Societies, the recent Decree-Law 307/2009, of the 23rd October, has launched new challenges to the agents and promoters of urban regeneration on Portugal, defining more accurately the execution of urban rehabilitation programs.

Still in a political level, the State Budget of 2008 (Law 67-A/2007), 2009 (Law 64-A/2008) and again of 2010 (Law 3-B/2010, of the 28th April) have guaranteed the fiscal benefits, which include, for instance, the VAT levied at 5% within the urban rehabilitation regime, exemption from council tax over properties and council tax over onerous transfer of property for buildings integrated in open-ended real estate funds, exemption of Income Tax for Legal Persons as far as real estate funds are concerned (if established between the 1st January 2008 and the 31st December 2012), and special taxation at 10%, as far as Income Tax for Individuals or Income Tax for Legal Persons, are concerned, in participating units of the real estate funds.

Also the Programme of the 17th Constitutional Government (2009-2013) reasserts the promotion of a urban rehabilitation and territorial requalification policy, establishing rehabilitation programmes of the public housing, with collaboration with the Municipalities, the development of the Cities Policy (POLIS XXI), favouring specifically the urban regeneration, the operationalisation of the Housing Strategic Plan 2009-2015, the continuity of the actions developed through a financial supporting programme to private entities (PROREABILITA), stimulating the private initiative, and the creation of a coherent set of instruments of financial engineering (Urban Development Funds), as enablers of public and private capitals. The latest Law 3-A/2010, of the 28th April, entitled "Great Options of the Plan for 2010-2013", also addresses the intent of creating financing instruments to support rehabilitation processes, highlighting the exceptional programme to support the urban rehabilitation to be established, granting financial support to the actions carried out by the private sector, specifically when articulated with the dynamisation of the rent market. Still, the priority is to expand the fiscal framework and develop and accomplish the Legal System of Urban Rehabilitation (Decree-Law 307/2009).

4. Main Problems – Criticism - Considerations at the Local Context

The Law 3-A/2010, of the 28th April, entitled "Great Options of the Plan for 2010-2013", support great expectations for the creation of Urban Development Funds in Portugal, after the creation of a 130 millions of Euros Holding Fund in 2009, enabling a framework for the development of strategic partnerships that may translate a strengthened connection between the central administration, the Municipalities and the local agents for the multidimensional and integrated interventions in specific urban areas.

Still, in Portugal, the implementation of JESSICA moves slowly, and for the moment it is entirely dependent on central governmental bodies. JESSICA brings the possibility of decreasing public-funding dependency by stimulating private investment, ensuring sustainability of investment projects, which the private sector has more experience to guarantee. The delay in creating Urban Development Funds surely is connected with the highly paternal care from the State and the complexity of the legal framework. On the other hand, public money in JESSICA has its source on NSRF's funding, which implies that 130 million of Euros of grants were 'transferred' to loans and equity.

JESSICA implementation in Portugal stills needs clear guidelines and communication, but the urgency of promoting such recyclable financial instruments must be answered, given the short remaining period for the application of the ongoing Structural Funds. Recent debates on how to finance energy efficiency operations in the deprived city centres, for instance, have to be clarified as well, in order to assure sustainable interventions. The future of our cities depends much on JESSICA implementation, which must no longer be postponed.

5. Advantages of Participating on the JESSICA For Cities Working Group

The invitation of the European Investment Bank addressed to Porto Vivo, SRU to be part of the JESSICA For Cities working group was an honour and a responsibility, but we are proud to have made this contribution to this project, since we are aware of the benefits it may bring to the European cities. Porto is a city which has started a path of recovery and renewal of its World Heritage central area, for which urban rehabilitation projects have been designed, but where the difficulty of attracting the private sector slows down the urgency of intervention. JESSICA brings a new stimulus to engage the private sector and is also an opportunity to promise future regeneration projects.

However, we felt, during the process, that the work of JESSICA For Cities group has not been taken in due account either by the European Union representatives nor by the Central Government. The design of JESSICA architecture, at country level, didn't benefit the working group experience, since the national negotiations with the European Union went on without considering the working group *acquis*. As far as Portugal is concerned, notwithstanding our participation in the working group, we have not been contacted by the national body responsible for JESSICA implementation, who could gain from our experience. Significant issues remain unclear, such as, for instance, the questions concerning the regional and national programmes eligibility and the Urban Development Funds framework and rules.

JESSICA For Cities working group, promoted by URBACT, has given us the possibility of exchange experiences and learning, accessing knowledge that enables us to move forward. Shared doubts and problems have not diminished the willingness to change, they have strengthened our determination to solve our cities' difficulties, above all, at this time of crisis. Local examples of sustainable development projects have showed that a large range of them may become 'jessicable', which has triggered our desire for developing and put in operation Urban Development Funds as soon as possible. We believe that this new dynamic will surely benefit our cities.

List of Abbreviations

ACRRU – Critical Area of Urban Rehabilitation and Reconversion

ERDF – European Regional Development Fund

ON.2 – O Novo Norte (Operational Programme)

NOVOPCA – NOVOPCA II Investimentos Imobiliários, S.A.

NSRF – National Strategic Reference Framework

SRU – Sociedade de Reabilitação Urbana (*Urban Rehabilitation Society*)

XI. CITY OF POZNAN (POZNAN CITY HALL) CONTRIBUTION

1. JESSICA in Poland

In Poland the decision concerning implementation of the JESSICA instrument belongs to the regional authorities (Regional Marshal Offices) as the initiative is being implemented in the framework of the Regional Operational Programmes. Up to March 2010, 3 Polish regions: Wielkopolska, Zachodnie Pomorze (Western Pomerania) and Śląsk (Silesia) decided to implement JESSICA. 3 other regions: Pomorze (Pomerania), Dolny Śląsk (Lower Silesia) and Małopolska are considering joining the initiative.

The Polish Ministry of Regional Development is the Co-ordinating Institutions and it takes the steps supporting the process of JESSICA implementation in Poland aiming at creation of the necessary legal frameworks. The Ministry participates in the process through issuing opinions or recommendations and participates in the working meetings concerning JESSICA.

2. JESSICA in Wielkopolska Region

In Wielkopolska the decision on JESSICA implementation was taken by the Marshal Office of the Wielkopolska Region. JESSICA was originally devoted to revitalisation (regeneration) as this area of co-financing was "undercapitalised". In Poland in the years 2004 –2006 the resources available for revitalisation activities were very limited. In the programming period 2007 -2013 the total amount for revitalisation activities is more significant but still insufficient.

At present, JESSICA initiative is implemented under two measures of Wielkopolska Regional Operational Programme:

- Measure 1.4 "Support for the Investments linked to Regional Strategy for Innovation", Scheme III: ″Investment in support of business environment institutions in urban areas";
- Measure 4.1 ″Revitalisation of urban areas".

Total allocation for JESSICA equals 66 M EUR out of which 50 M EUR come from ERDF and 15 M EUR is state budget contribution.

Present Context of the Partner State and the predicted evolution for 20013-2020 - State of implementation of JESSICA at the level of Managing Authority:

September 2008	Preparation of legal analysis of JESSICA implementation
October 2008	MA signed Memorandum of Understanding with EIB
January 2009	A Study of implementation of JESSICA in Western Poland
December 2008 – Apri 2009	Negotiations on financial agreement with EIB
29th April 2009	Funding Agreement signed between MA and EIB for more than 66 mln EUR
Second quarter of 200	Creation of the Holding Fund (EIB) and transfer of funds
19th February 2009	Monitoring Committee approves criteria for selection of Urban Development Funds for t Wielkopolska Region
22nd March2010 - 8th April 2010	The European Investment Bank, acting as JESSICA Holding Fund, launches the call f expression of interest to select urban development funds, which shall disburse funds throu financial engineering instruments in the form of repayable investments in public-priva partnerships or other urban regeneration projects
26th April 2010	End of preliminary evaluation of expressions of interest to select urban development funds
Till 7th June 2010	Presentation of business plans
End of 2nd quarter/beginning of 3rd quarter 2010	Planned: signing agreement between selected UDF and HF
Current works:	Assumptions for aid programme for JESSICA and methodology of calculation of public aid lev in the framework of JESSICA Changes introduced to the project of the regulation concerni public aid in JESSICA
Predicted evolution for 2013 - 2020	There's no decision up till now on the future of the JESSICA mechanism in the region.

State of implementation of JESSICA - Poznań City Hall level

Introduction:	Works concerning implementation of JESSICA entirely depending on the progress the process of implementation at the regional level Co-operation with the Managing Authority necessary and useful for preparation concrete basis for further utilisation of the JESSICA financial assistance from the tir when it is available for beneficiaries
September 2009	- Consultations with the Managing Authority concerning guidelines for Integrat Plans of Urban Development - Necessity of updating an already existing Urban Regeneration Programme f Poznań in line with the JESSICA requirements
March 2010	Approval by the City Council of the Urban Regeneration Programme for Pozn including post - industrial and post - military areas
December 2009	Presentation of a concept of Urban Development Fund for Poznań - The idea of creating UDF Poznań emerged when the Marshal Office of t Wielkopolska Region (Managing Authority) started the process of implementi JESSICA instrument as the source of financing the regeneration activities, in t framework of the Wielkopolska Regional Operational Programme (WROP)
April 2010	Participation in the Call for expression of interest to select urban development fu by the City of Poznań represented by the Wielkopolskie Centrum Wspierar Inwestycji (Wielkopolska Centre for Support of Investments) - a private limit company created and entirely owned by the City. Accepted by the EIB. The Applicant was asked to present the portfolio with projec and business plans
Predicted evolution f 2013 - 2020	Decisions concerning the future of JESSICA for the partner depends on the result the EIB acting as JESSICA Holding Fund for Wielkopolska on the creation of UI Poznań. The City being partner to Wielkopolska Centre for Support of Investmer which is the Applicant in the procedure, participates in the application proces proposes the list of projects to be implemented if the UDF Poznan is successfu created.

3. Advantages of Participating to this Type of Programs

From the beginning of the process of its integration with the European Union, Poland benefited from the EU financial assistance mainly in form of grants acquired in the framework of pre-accession funds. Since 01/05/2004 as the "Cohesion" EU Member State it is one of the beneficiaries of Structural Funds. This assistance remains an important factor and engine of its development both when it comes to infrastructure and human capital.

The main part of the EU financial help has been used in the framework of current EU budget perspective 2007 – 2013. However the Structural Funds will still be available after this period, it is clear that the financial assistance from the EU will gradually diminish.

The idea of the new mechanism of spending the EU money profitably has been interesting from the very beginning when JESSICA appeared. Especially that as far as Wielkopolska region is concerned, JESSICA was earmarked for the regeneration projects. When it comes to urban regeneration (revitalisation) Poznań is one of the leaders among the cities in Poland – its Regeneration Programme is often presented as the model example of concise approach towards regeneration including all the infrastructure and socio-economic factors. On the other hand JESSICA assumes co-operation of public and private sector in common regeneration projects, which is one of the basic conditions for effective regeneration of deprived urban areas.

The following aspects are mostly attractive for Poznań in relation with JESSICA:

- The JESSICA basic assumptions is to provide financial assistance to the projects that are repayable, which aims to multiply the EU money instead of using it as non-reimbursable grants. Promotion of this new approach of implementation of projects that bring profit with the use of EU money, "prepares" the New Member States for the perspective of diminishing of the financial assistance in form of grants in the following EU budget perspectives.

- JESSICA assistance is still focused on projects that are bound to bring profit. However in normal market conditions (for example through bank loans) these projects would not receive financial assistance. This is important especially for urban projects that normally are not highly repayable and should satisfy different public and private needs.

- Since there are not many governmental programmes aiming at regeneration, JESSICA might be a very interesting, even unique opportunity for the private owners who are not eligible to benefit from the EU Funds.

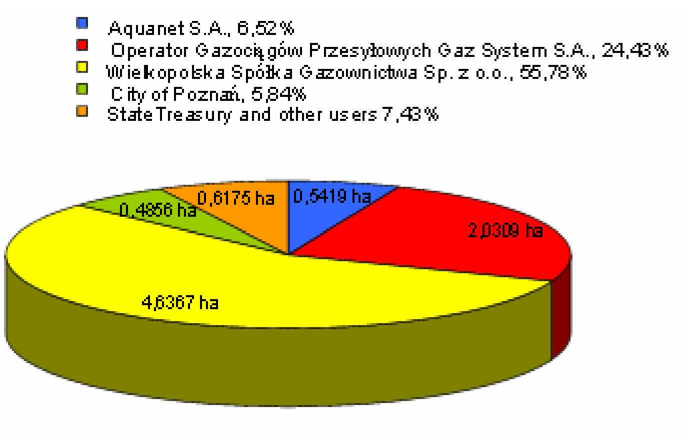
- JESSICA may foster interest of private sector in investing in the regeneration areas and in consequence contribute to city regeneration.

- Implementation of the new instrument requires preparation of integrated programmes of urban development, which is positive for updating the current programmes. Moreover, the integrated approach towards management of urban development is promoted.

4. Short Presentation of a "Jessicable" Project.

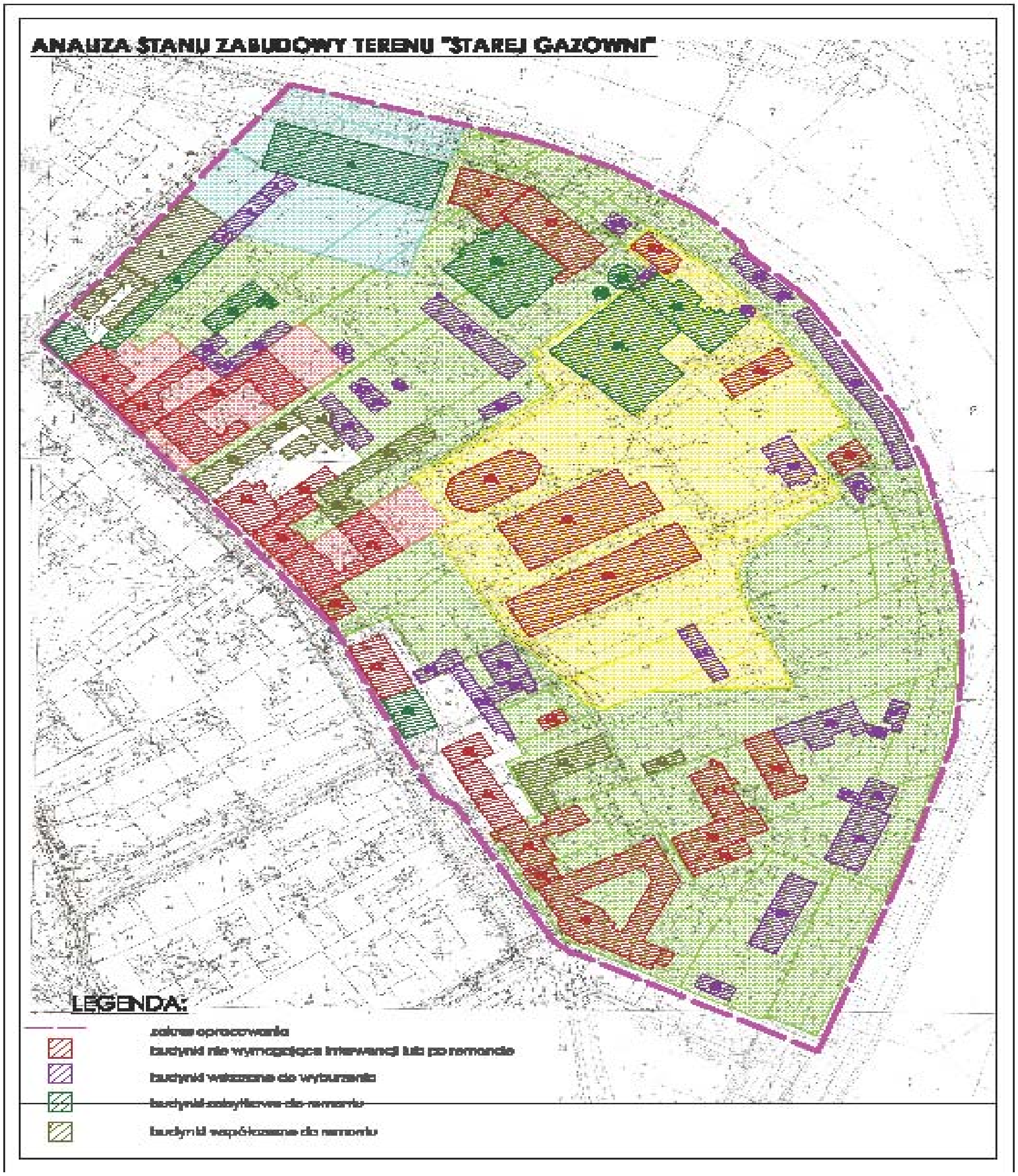
From the beginning of the process of JESSICA implementation in Wielkopolska, the City of Poznań proposed regeneration of Old Gasworks as the JESSICAble project. The *Old Gasworks* (Stara Gazownia) is the neglected, partly devastated post-industrial area in the very centre of Poznań of high architectural value. It was designed by the Scottish architect John Moore and built in the 50s of XIX century by the river Warta. The Gasworks were operating till 1973.

At present the main parts of Old Gasworks' area are owned by 3 different companies dealing with supply of gas, water and sewage treatment. The place serves mainly as the administrative centre for those companies - it does not play its original production role. The area is closed to the public, accessible only for the employees and pass holders.



Old Gasowrks - the ownership structure

In June 2008 one of the ancient buildings the Hall of Filters was to be sold. The building belongs to the water supply company which is partly owned by the municipality. This information attracted attention of the citizens and resulted in protests expressed by different "milieus" asking for "bringing the Old Gasworks back to citizens" and its revitalisation. The idea of creating in the Old Gasworks a cultural and educational centre was put forward.



Picture presenting the area of the Old Gasworks with main buildings where the following colours represent: Red – buildings NOT requiring renovation or already renovated (administration for the area owners); Purple (pink) – buildings indicated for destruction; Dark green – ancient buildings already indicated for renovation (high architectural value); Light green – modern buildings indicated for renovation

Though the idea is very popular and widely supported, the project is very complicated due to differentiated structure of ownership (none of the area belongs directly to the municipality) and huge costs of the essential revitalisation investments.

Therefore, the project is planned to be implemented stage by stage. The preliminary feasibility study was presented in 2009 assuming creation of one company into which 3 companies - owners would contribute with land and arrange for gaining financial resources. The project assumption was to create in the Old Gasworks the business, cultural, educational and social centre, not dependent on the municipal budget until the end of this programming period. The total value predicted was about 40 million EUR.

Facing the magnitude and complexity of this investment it was more reasonable to divide the process into stages and start with revitalisation of the part of the area using (for example) the JESSICA resources.

The first step would concern the building of Aquanet (Hall of Filters), where documentation and administrative permissions necessary for submitting the proposal for co-financing are ready. The City Hall ordered the analysis of creating in the Hall of Filters the "Poznań Incubator for the Creative Sector".

Modernisation of the building and its surroundings would be the first step of implementation of the concept of turning the Old Gasworks into the centre of culture and business. Creation of incubator fulfils the assumption of giving the area new functions and, through support of creative sectors, it is strictly linked with the aim of promoting development of entrepreneurship in the Wielkopolska region. The creative sector embraces the following branches: cultural services (visual and audiovisual arts, artistic galleries, artistic production), media, publishing companies, industrial design, fashion design, architecture and advertising.

The Poznań Incubator for the Creative Sector would be created on the area of 4205,50 m2 and would offer to new or developing enterprises:

- rent of an attractive enterprise area;
- modern "machine park" with necessary equipment and tools essential for providing services at the highest level;
- supporting services for the business activity.

The Incubator would also offer the area for rent for artistic activity. It would play the role of intermediary between the science and business through consulting services provided by the scientists and realisation of different activities including: trainings, exhibitions and information. The idea was preceded with needs analysis concerning "machine park", area for artistic activity and other services provided by Incubator and was consulted with different companies and representatives of so-called "free professions" of the creative sector. The result of analysis proved that the offer of the Incubator would be very attractive for the regional enterprises, it would encourage their development and increase their competitiveness. It is also unique for Poland that the Incubator would gather different services provided to the creative sector in one place. This would increase accessibility of services supporting the business environment for the entrepreneurs and creators active in this specific and dynamically developed field.

The total value of the investments is estimated for 40 602 623.82 PLN (about 10 150 655.95 EUR with 1 EUR = 4 PLN). According to financial and economic analysis the project indicates relatively high financial effectiveness and financial sustainability is secured.

The project will be presented in the portfolio of projects proposed for implementation with the JESSICA resources in the framework of the application process for the creation of UDF Poznań.

5. Concept of Functioning of the Udf For Poznań[6]

Introduction

[6] Explanatory note: The "Concept of functioning of the UDF for the City of Poznań" had been prepared in December 2009, before the European Investment Bank, acting as JESSICA Holding Fund, launched the Call for Expression of Interest to select urban development funds, "which shall disburse funds through financial engineering instruments in the form of repayable investments in public-private partnerships or other urban regeneration projects". The concept was partly used in the application procedure which is still in the process. The City of Poznań is applying through the Wielkopolskie Centrum Wspierania Inwestycji (Wielkopolska Centre for Support of Investments) - a private limited company created and entirely owned by the City, which is the Applicant. The Expression of Interest was presented to the EIB in April and accepted for participation in further stages of the selection procedure. The Applicant was asked to present the portfolio with projects and business plans till 7th June 2010.

The text of the Call for Expression of Interest published by EIB to identify and select appropriate urban development funds eligible to receive financial contribution from the JESSICA Holding Fund in Wielkopolska, is enclosed to this report or available on the EIB website:

http://www.eib.org/products/technical_assistance/jessica/calls-for-eoi/index.htm

The concept of functioning of the UDF for the City of Poznań was prepared for the Poznań City Hall in the framework of the process of implementation of JESSICA instrument in the Wielkopolska region. The main aim of the concept is to elaborate the formula (solution) that would address the needs of the City in the field of urban regeneration. For the purpose of the study the shortening of UDF Poznań will be used.

The idea of creating UDF Poznań emerged when the Marshal Office of the Wielkopolska Region started the process of implementing JESSICA instrument as the source of financing the regeneration activities, in the framework of the Wielkopolska Regional Operational Programme (WROP).

The concept recalls all the basic fact about JESSICA and four basic documents concerning general concepts of implementation of this instrument in Europe:

- JESSICA. Preliminary Evaluation Study, European Investments Bank, 2007.

- Legal analysis of conditions for implementation of JESSICA in Poland, European Investments Bank, 2008 (prepared by "Wierciński, Kwieciński, Baehr" Law company.

- Urban Development Funds in Europe. Ideas for implementing the JESSICA Initiative, Federal Ministry of Transport, Building and Urban Affairs, Berlin 2009.

- JESSICA Evaluation Study - West Poland, European Investments Bank, 2009, Ove Arup & Partners International Limited Sp. z o. o. Oddział w Polsce .

The authors of the concept used the above mentioned publications as the basis. However, they aim at elaborating an individual approach towards creation of the UDF Poznań. This approach is not always in line with the recommendations included in the publications, which is linked with local conditions and the necessity of providing much more detailed concept.

The authors recall the legal basis regulating use of financial instruments that are included in the EU legislation.

Preliminary assumptions: review of basic publications in reference to Urban Development Funds

The chapter is the review of the basic publications concerning UDFs enumerated in the introduction. Additionally the authors present and analyse the examples of different initiatives in form of investments funds, loan funds and others, active in the field of urban regeneration, that could be analysed and useful for elaboration of the best model for Poznań with respect to local conditions and requirements. The authors present examples from Great Britain, France, Germany, Portugal and Italy.

Preliminary assumptions:

On the basis of legal analysis concerning creation and functioning of the instruments of financial engineering (here: Urban Development Funds) and elaborated documents it is possible to establish certain preliminary (basic) assumptions for the UDF Poznań. These assumptions will remain constant for the purpose of hereby study and will not be the subject of any further variant analysis.

The City of Poznań could create/or join to creation of an Urban Development Fund only in the form of capital company. It is necessary to stress that creation of such company is important for the development of the municipality. The most suitable legal form (according to the Polish Law) will be the limited company, while the business model for Poznań UDF should be the loan fund.

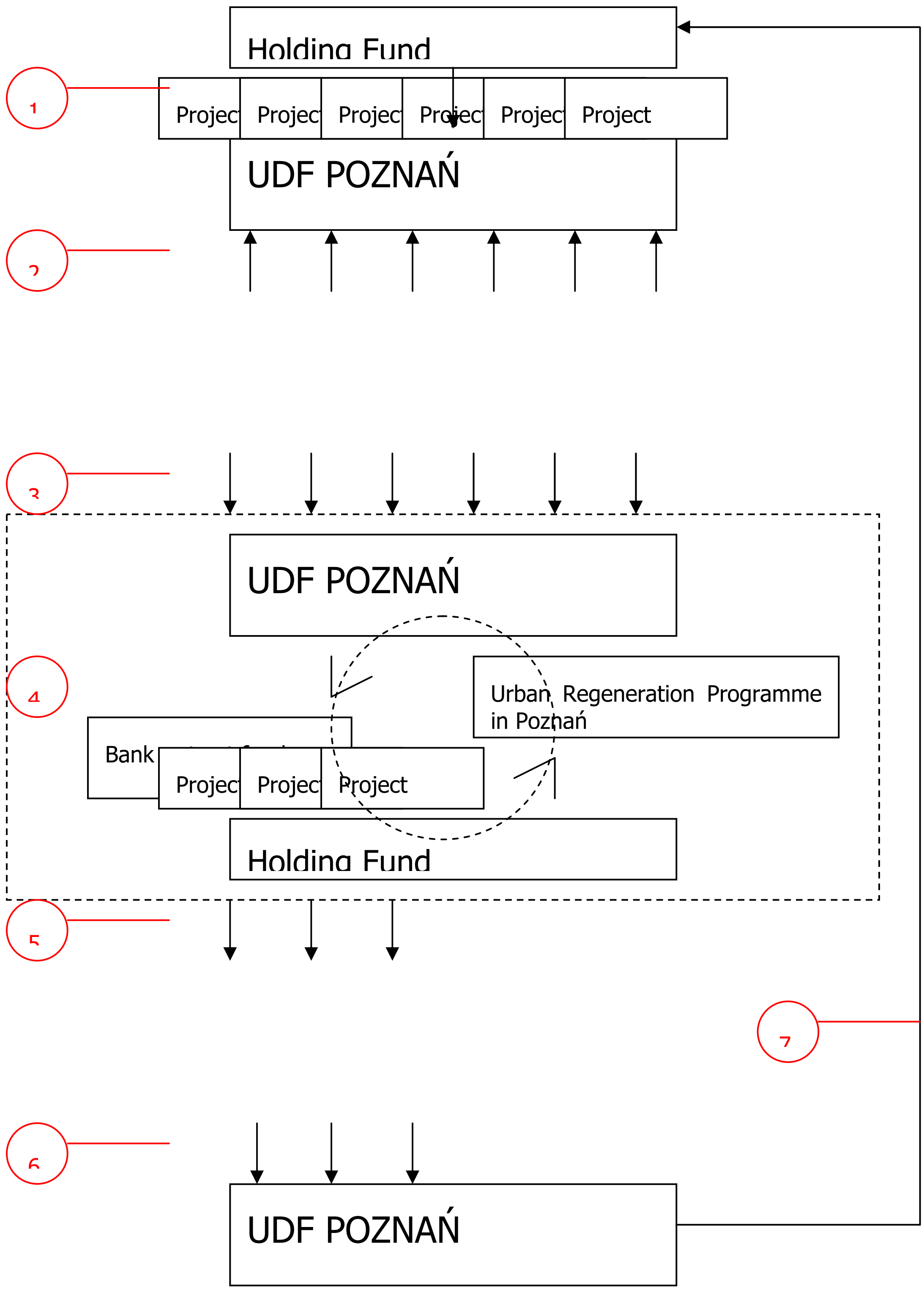
Capital for loans will derive from the European Regional Development Fund. As for the relations with the Managing Authority, which will transfer via Holding Fund the financial means for managing, the UDF will act as the Implementing Institution for the part of the priority of the Wielkopolska Regional Operational Programme.

In case when the European Investment Bank plays the role of the Holding Fund in Wielkopolska, the UDF Poznań does not have to be selected in the framework of tender procedure. The projects financed directly through the UDF Poznań will be in line with the Urban Regeneration Programme, since the area of action for UDF is limited to the degraded urban areas, post-industrial, post - military, post - railway areas or any other defined as crisis areas identified in the framework of such programmes.

UDF Poznań will be entitled to devote maximum 3% of the allocated financial means for the managing activity. Loans available for the projects will have the preferential character both when it comes to interest rate and term of repayment.

Scope of tasks for UDF Poznań

Below the scheme of functioning of UDF Poznań is presented. It was prepared for the recommended model.



Holding Fund
Projec
Projec
Projec
Projec
Projec
Project
UDF POZNAŃ
1
2
3
UDF POZNAŃ
4
Urban Regeneration Programme in Poznań
Bank
Projec
Projec
Project
Holding Fund
5
7
6
UDF POZNAŃ

UDF Poznań tasks are the following:

- co-operation with Holding Fund at the stage preceding implementation of projects
- identification of regeneration projects;
- preparation of list of projects selected for financing in the framework of JESSICA;
- assessment of applications for loan financing of the regeneration projects;
- contracting loan financing;
- implementation of the regeneration projects financed in the framework of JESSICA;
- co-operation with the Holding Fund at the stage of implementing the contracted projects and after their conclusion.

Scope of competencies for UDF Poznań

The competencies of UDF Poznań will be linked with:

- UDF's function of the Implementing Institution;
- UDF's execution of its own tasks, specified by its founding body.

The catalogue of basic tasks performed by the UDF was described in different studies presented below. The competencies of the UDF may be divided in two groups:

- deriving from its function of institution implementing the activities of the Wielkopolska Regional Operational Programme (WROP). In this situation UDF Poznań will be managing the financial means of the European Regional Development Fund but will not be its owner.
- deriving from its function of institution financing projects through loans from the own recourses of the UDF Poznań. In this situation it will execute tasks endowed in the framework of financing projects through loans with financial means repaid from the loans borrowed which will belong to the UDF Poznań.

The competencies of Poznań UDF will be:

- representing the Managing Authority of the Wielkopolska Regional Operational Programme in the framework of the role of an institution implementing the activities of the WROP for which the form of support in the framework of JESSICA was established, including:
    - ➢ signing contracts with the Holding Fund concerning implementation of projects financed in the framework of JESSICA;
    - ➢ organisation of calls for proposals for projects concerning regeneration financed in

the framework of JESSICA;

- signing contracts with the project beneficiaries;
- financial management;
- monitoring and control of project implementation;
- information and promotion activities concerning JESSICA initiative and support of regeneration projects financed by the ERDF;

- organisation of call for proposal for projects concerning regeneration financed from financial resources of the UDF or the Marshal Office of the Wielkopolska Region, which were repaid in form of instalments ;
- signing contracts with beneficiaries of projects financed in the framework of UDF or regional self-government (Marshal Office);
- monitoring and control of implementation of projects financed from the own resources of the UDF or regional self-government (Marshal Office);
- consultations concerning Urban Regeneration Programme for Poznań;
- consultations in the process of preparing regeneration projects of the City of Poznań for which loans will be lend from the UDF or regional self-government (Marshal Office);
- information and promotion activities concerning implementation of projects financed from the UDF or regional self-government (Marshal Office) resources.

Choice of organisational model

From the point of view of the Holding Fund there are many possible organisational models of a UDF. They were analysed in different studies presented in chapter 2. One of the selection criteria of the organisational model was the adequacy/quality of the subject in the framework of which the UDF would be created. Thus it is possible to analyse positive and negative features of different variants, according to which the UDF appoints a concrete subject and if its previous activity, aims, experience and legal form will qualify it in comparison to other variants of acting as the UDF.

The subject of this study is not to determine which of the possible options is the best. It is assumed that the City of Poznań will accede to creation of the Urban Development Funds so the scope of possible variants is limited to the following models:

1. the City of Poznań independently creates a capital company;
2. an already functioning capital company of the City of Poznań acts as the UDF;
3. the City of Poznań accedes to the UDF (capital company) along with other municipalities/communes;

4. the City of Poznań accedes to the UDF (capital company) along with a private partner;
5. a private partner independently creates in the framework of its own organisation a UDF or create a capital company.

Variant no. 5 was included in the analysis to check if the City of Poznań has the ability to create UDF and if the creation of the UDF by the municipality is well founded. Variant no. 1 and 2 differ from each other only in the procedures of their creation. For the purpose of analysing those variants and choice of the organisational model it is necessary to join them into one model.

Decision if the City of Poznań would create new capital company or it would recommend to transfer UDF's tasks to another, already existing company will derive from political analysis and reconnaissance if such transfer would not impede it's previous functioning.

In order to choose the optimum organisational model of the UDF it is necessary to define criteria of assessment of different variants. They will be divided in the following groups:

- experience in debt financing of infrastructure investments;
- experience in managing public funds;
- knowledge of the market and ability to identify regeneration projects;
- relation of organisation aims to social aims;
- ability of undertaking investments risk;
- possibility of generating additional financing of regeneration projects;
- experience in implementation of regeneration projects financed from the public funds in particular EU funds.

On the basis of the comparative analysis the variants, which are possible to be implemented, in which the City of Poznań could participate, it is the most recommended for the City of Poznań:

a) to create independently a capital company UDF Poznań;
b) to transfer the tasks of UDF to the already existing company.

The a) option is mostly recommended so that the UDF tasks were not mixed with other tasks of such organisation.

For the proper execution of tasks linked with managing loan fund, UDF Poznań will co-operate (on the basis of civil contract) with a bank that will provide services linked with:

- financial analysis of the projects;
- financial solvability of the beneficiaries;
- preparation of contracts concerning financing in part of guarantees for given loans, conditions of giving and repaying loan's instalments;
- tasks linked with financial counselling for beneficiaries, regulation of cash flows, monitoring of repayments, maintaining financial correspondence with beneficiaries, vindication of unpaid debts.

It might be considered that the Holding Fund would perform functions of the payer to the beneficiaries.

At present it is not clear who will be the owner of the financial means repaid from the loans. Independently to any solution, the UDF would be functioning even after the financial resources of ERDF have been used. It is possible to presume that already functioning Regeneration Unit of the Project Co-ordination Office in Poznań City Hall would be the part of the UDF structure. This would eliminate the problem of possible conflict of competencies and unclear division of tasks. As soon as the UDF have taken over tasks of the Regeneration Unit, it will play role of the co-ordinator of the urban regeneration process in the City of Poznań. However, the UDF Poznań would not take over the whole team of the Regeneration Unit but would commence close co-operation in the field of identification of projects, choice of projects for financing. The other units of the Project Co-ordination Office in the filed of implementation of the regeneration projects.

The financial profits from functioning of Old Gasworks will supply the UDF. This money would increase either the loan fund or newly created grant fund for the City of Poznań own projects.

Organisational structure

There are the following units proposed to function in the framework of the company:

- Board of associates;
- Supervisory board;
- Management board;

Board of associates appoints and dismisses the president and members of the Supervisory board and performs the following functions: approves financial plan of the company, approves multi-annual programme of its activities, approves reports of the management, takes decision concerning selling or purchasing real estate, agrees on purchasing or selling shares and stocks in other companies, sets rules and amount of remuneration for the management board etc

Supervisory board performs the following supervisory functions over the association functioning, in particular: gives opinions on the financial reports of the company, appoints and dismisses members of the management board, gives opinion on the financial plan of the company, approves multi-annual programme of its activities, approves statute of the company's management and organisational regulations of the company.

Management board is composed of the President of the company and his Deputy. Their tasks are as follows: all issues linked with leading the company, which are not restricted by the rules of law or in the contract for the other authorities of the company. On the basis of the contract, the management will be obliged to deliver to the City of Poznań the protocols and resolutions of the supervisory board and to prepare the financial reports and employment reports.

The structure of employment of the UDF Poznań:

- Management
    - Director
    - Accountant
- Responsible before the Director:
    - Legal officer
    - IT officer
    - Officer responsible for organisation of consultations, PR and promotion
    - Formal assessment of the applications, assistance to the works of the projects' assessment commission, monitoring and control over the projects.
- Responsible before the Accountant:
    - Budget officer

Target market of enterprises and urban projects, criteria, rules and conditions of financing.

Poznań City Hall is in the process of cataloguing all the post - industrial, post - military and post - railway areas of the City of Poznań. In its first stage, the list of all different sites in the area of the City Centre was presented. In the upcoming stage all the selected areas will be described in details with the following information: the level of use of the buildings and areas, description of actual stage of investments, and the general technical condition of the buildings. The information will be necessary for identification of potential JESSICAble projects. The identification will be linked with diagnosis of the potential functions of the areas, their ownership structure, consultations with present owners concerning their investment plans. Part of the area owners will belong to the market of enterprises. Part of the areas will intended for sale. In this situation the target market will be the property developer companies.

The City is updating the Urban Regeneration Programme in the framework of which potential project and beneficiaries of JESSICA will be identified.

The key area of the UDF Poznań is Stara Gazownia - Old Gasworks. On its area several investments projects could be implemented. The chapter presents description of the Old Gasworks' idea.

Next, the criteria of projects' selection are enumerated with division into: formal and substantial criteria.

Operational budget of Poznań UDF

Formulated in Polish currency.

Stakeholders

The only shareholder of the UDF Poznań would be the City of Poznań.

UDF Poznań policy concerning opting-out of the investments in enterprises and projects on the urban areas

It is assumed that the UDF Poznań will grant loans in the framework of JESSICA, so the policy concerning opting-out of the investments in enterprises and projects on the urban areas will not concern above analysed business model.

XII. BRASOV CONTRIBUTION

1. Simulation of a "Jessicable" Project: Short Presentation

Piata Sfatului – Brasov Historic Centre regeneration project

- According to the Integrated Sustainable Development Plan;
- Strategic objective 1: Tourism Sustainable Development – Brasov the Capital of Romanian Tourism;
- Specific objective: Rehabilitation of Brasov historic and tourist area;
- Project 3.2.: Rehabilitation and regeneration Piata Sfatului (Central Square) of Brasov;
- Activities: rehabilitation and restoration of the buildings, refurbishment of the facades of the building, repairing and maintenance of the systems of provision with utilities;
- Total estimated cost: 5,500,000 lei.

Rehabilitation and improvement of "Piaţa Sfatului"

"Piata Sfatului" represents an essential component of the cultural-historical patrimony of Brasov Municipality and in the same time one of the locations that defines the city identity from the touristic point of view. Important attraction point of the Brasov City, "Piata Sfatului" needs the development of a complex restoration and renovation programme which could contribute to the touristic attraction growth, implicitly generating competitive and sustainable economic development of the Brasov city and growth pole.

The project will involve interventions at the utilities' infrastructure (including ambient lighting), creation of pedestrian spaces (14,300 sqm) and setting-up urban furniture. "Piata Sfatului" is a location where there can be met various important touristic objectives such as the Black Church, Casa Sfatului with the Museum of History, and also the convergence of some known streets of touristic, cultural and commercial interest: Republicii, Muresenilor and Apolonia Hirscher.

We have analysed two financing options that can be used for such a project implementation:

a) grant aid through the Regional Operational Programme: the money is granted in a proportion of 98% of the project value;

b) revolving fund through the JESSICA Programe: the financial resources are lent in a proportion of 98% of the project value, will bear 3% interest per annum and will be reimbursed upon a schedule decided together with the Urban Development Fund.

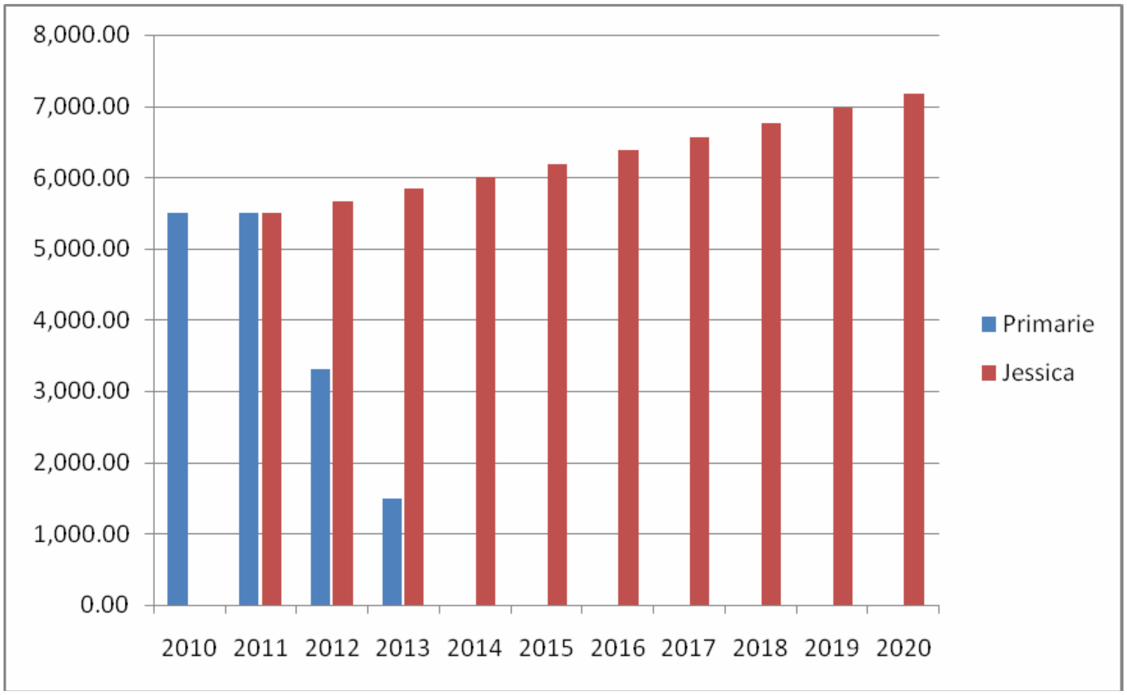
In the scenario of using JESSICA as a vehicle for carrying out activities under operational programmes, EU resources will be used in a different way, both in terms of payment deadlines and the nature of aid, i.e. aid will be repayable, as opposed to non-repayable aid granted traditionally. This should allow an increasing pool of resources for urban development at disposal of the Metropolitan Agency, to be cumulated in a long-term perspective.

The short-term benefit from setting the JESSICA programme will be that it will be possible to be granted a complete pool of resources to be used as part of a relevant ROP measure.

Until the resource are used in accordance with their destination, they may be held on interest-bearing bank accounts and generate income, which will allow at least part of fund operation and management costs to be covered.

Results of analyses carried out based on cash flow projections drawn up for grant financing and for JESSICA are presented in the diagram below. This was based on the following assumptions:

1. Investment value: 5,500,000 lei;
2. Project duration: 3 years;
3. Analysis horizon: 2010 – 2020;
4. Financing options: grant and revolving fund, through UDF;
5. Interest paid at the UDF fund: 3% per annum;


8,000.00
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0.00
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Primarie
Jessica

The financial projection was made from the perspective of the recipient of funds – the Metropolitan Agency which will dispose of grant funds in the first scenario – non-reimbursable funds[7] - until 2013, while in the second scenario (JESSICA) will dispose of increased funds – up to 7,176 thousands lei in 20202. The detailed financial figures are shown bellow.

-thousands lei-

Financing	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Grant	5,500	5,500	3,300	1,500	-	-	-	-	-	-	-
Jessica UDF	-	5,500	5,665	5,835	6,010	6,190	6,376	6,567	6,764	6,967	7,176

7 The non-reimbursable funding scenario is represented by the blocks in blue colour while the JESSICA scenario is represented by the blocks in red color.

Partnership for the implementation of the project:

The Brasov Metropolitan Agency is the leader of the urban intervention in Piata Sfatului through a protocol established with Brasov Municipality. It is responsible for developing an integrated plan, for the expropriation processes if necessary, and to find and involve private entities. The private partner is represented by the Evangelic Church, which owns a significant part of the buildings located on Piata Sfatului. With regard to rehabilitated housing, Brasov Metropolitan Agency will have as role the management of the leased houses. Regarding cash inflows, the Brasov Metropolitan Agency will receive the rent received from the three categories of buildings located in Piata sfatului:

Investment in the construction of the hotel is estimated to 5,500,000 lei and should occur in 3 years. The revenues expected to be generated by the investment will consist mainly in rents obtained from three categories of premises. The three categories and the corresponding average rent/month and the monthly income foreseen to be obtained from rents is shown in the table below:

No	Category of spaces	Surfaces	Average Rent/Month	Monthly Income from rent
1	Houses	14781 sqm[8]	8 euro/sqm	118,248 Euro
2	Office premises	6566 sqm	10 Euro/sqm	65,660 Euro
3	Commercial premises	29602 sqm	14 euro/sqm	424,606 Euro
	Total			608,514 Euro

8 Squares meters

Financial evaluation of the Piata Sfatului project

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total inflows	0	2200	1800	16500	29900	29900	29900	29900	29900	29900	29900	29900	29900	29900
Total financial resources	0.00	2,200.00	1,800.00	1,500.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total operating revenues				15,000.00	29,900.00	29,900.00	29,900.00	29,900.00	29,900.00	29,900.00	29,900.00	29,900.00	29,900.00	29,900.00
Total outflows	19138	19300	19300	19815	19815	19815	19815	19815	19815	19815	19815	19815	19815	19815
Total operating costs	19,300.00	19,300.00	19,300.00	19,300.00	19,300.00	19,300.00	19,300.00	19,300.00	19,300.00	19,300.00	19,300.00	19,300.00	19,300.00	19,300.00
Total investment costs														
Intrest				15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00
Loan reimbursement				500.00	500.00	500.00	500.00	500.00	500.00	500.00	500.00	500.00	500.00	500.00
Private contribution - Evangelic Church	-50.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Public contribution - Brasov Municipality	-112.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net cashflow	-19138	-17100	-17500	-3315	10085	10085	10085	10085	10085	10085	10085	10085	10085	10085
-5562	-19,138.00	-17,100.00	-17,500.00	-3,315.00	10,085.00	10,085.00	10,085.00	10,085.00	10,085.00	10,085.00	10,085.00	10,085.00	10,085.00	10,085.00
discount rate	**9%**													
IRR	**7%**													
NPV	**€ (19,563.91)**													

2. Alternatives to Finance the Sustainable Development in Romania

If financed by grants:

- ERDF (ROP) + local budget.

Financing would be made through Regional Operation Program, Axis 1- Growth Poles.

If financed by "Jessica" scheme:

- ERDF (ROP) + local budget + private investment funds.

Steps to be taken:

1. Clarify the public-private partnership procedures;
2. Create the framework for UDFs (Poland or Portugal model);
3. Create the HF and the UDFs;
4. Reshape the ROP to foster "Jessicable" projects;
5. Implementation of the first "Jessicable" projects as pilot projects to be followed by the metropolitan/urban areas of Romania.

3. The Partner State Experience Concerning the Adoption and Implementation of Jessica

MA position

At present, MA of the ROP is rather reluctant to create and use UDFs due to the lack of expertise and mostly because the money is available as grants up to 2013.

ACIS position

At present, it controls the structural funds operation and absorption in Romania and would like to maintain the central control over the money allocation and spending. As the MA, ACIS is rather reluctant to create and use UDFs as it does not see their immediate results and impact and as it has no expertise in revolving funds management and/or supervision.

If YES, from both MA and ACIS, then steps 1-5 to be implemented

1. Clarify the public-private partnership procedures;
2. Create the framework for UDFs (Poland or Portugal model);
3. Create the HF and the UDFs;
4. Reshape the ROP to foster "Jessicable" projects;
5. Implement the first "Jessicable" projects as pilot projects to be followed by the metropolitan/urban areas of Romania.

If NO, from both MA and ACIS, then the 1-3 steps to be followed:

1. Reconsider the ROP structure and procedures in order to:
    - Adjust to the decrease of EU fund allocation after 2013;
    - Continue to respond to the main community needs;
    - Increase the absorption rate up to 2013 and further.
2. Increase (or create, if the case) the expertise to develop sound sustainable development projects:
    - Create the expertise for the financial component of the projects;
    - Develop the procedures to implement the revenue generation principle to the projects;
    - Develop the expertise to evaluating, managing, implementing and monitoring revenue generating projects;
3. Create the expertise to create and operate the UDF for the future, after 2013, when the EU allocations will decrease.

4. Present Context of the Partner State and the Predicted Evolution for 2013-2020

Present situation of the national, regional and local economy and finances

National Financial status 2010

European Commission - European Economic Forecast spring 2010				
Forecasts for Romania	**200**	**200**	**201**	**201**
GDP growth (%, yoy)	7.3	-7.1	0.8	3.5
Inflation (%, yoy)	7.9	5.6	4.3	3.0
Unemployment (%)	5.8	6.9	8.5	7.9
Public budget balance (% of GDP)	-5.4	-8.3	-8.0	-7.4
Current account balance (% of GD	-12.	-4.4	-4.4	-5.6

Source: 5 May 2010, European Commission, European Economy n° 2|2010

(http://ec.europa.eu/economy_finance/eu/forecasts/2010_spring/ro_en.pdf)

Deep recession caused by the crisis

With an average annual real GDP growth of 6.8% between 2004 and 2008, Romania was one of the fastest growing EU Member States. However, this strong growth went hand in hand with growing external and fiscal imbalances. The sudden increase in risk aversion during the financial crisis caused market participants to become increasingly concerned about these imbalances. Capital inflows fell markedly and the exchange rate of the RON against the euro depreciated by more than 30% between August 2007 and January 2009. Tighter access to financing, balance-sheet effects of the currency depreciation, and the sharp decline in exports due to the slump in global trade triggered a strong contraction of real GDP, which fell by 7.1% in 2009.

The contraction in economic activity led to an increase of the unemployment rate from 5.8% in 2008 to 6.9% in 2009. However, in spite of easing wage pressures, HICP inflation

(5.6% in 2009) remained relatively high compared to regional peers, reflecting rigidities in labour and product markets. The crisis also triggered a pronounced adjustment of external imbalances. The current-account deficit is estimated to have fallen from 12.7% of GDP in 2008 to 4.4% in 2009.

The benefits from the adoption of the comprehensive economic policy program, agreed as a condition for the medium-term financial assistance from the EU and international financial institutions, started to become evident in the second half of 2009. Against this background, pressures on the exchange rate eased and the National Bank of Romania (NBR) was able to stabilise and recently even increase its stock of international reserves.

Although much of the GDP decline associated with the economic and financial crisis is cyclical, it may also have negative consequences for potential growth over the medium term, notably through slower capital accumulation (i.e. due to the sharp fall in investment flows and constraints on credit availability) and increasing structural unemployment through hysteresis. Moreover, the impact of the economic crisis coincides with the negative effects of ageing and emigration on potential output.

Gradual recovery driven by exports and foreign direct investment

Real GDP growth is expected to recover moderately to 0.8% for 2010 as a whole, gradually accelerating to 3.5% in 2011. The expected improvement in economic conditions in 2010 is due to a recovery of external demand and foreign direct investment. Private consumption growth is not expected to recover firmly until later in the year, because of slower wage increases, the continued high rate of unemployment and difficult access to credit. Similarly, investment should remain weak, being held back by low capital utilisation rates, credit constraints and market uncertainty. All this implies that the recovery is likely to remain shallow at least during the current calendar year.

The situation is expected to improve in 2011, when GDP growth is forecast to accelerate, fed by a 4.2% increase in private consumption expenditures as well as by a 5.8% increase in investment spending. Government consumption expenditures are projected to remain weak because of a continued need for fiscal consolidation. The external sector is projected to make a negative contribution to GDP growth as the recovery of domestic demand should give a significant boost to import growth.

The external and fiscal imbalances that contributed to the severity of the recession in Romania are expected to continue to unwind. The current-account deficit is now expected to remain flat at 4.4% in 2010. With a strengthening of domestic demand in the following year, the current-account balance is forecast to deteriorate to 5.6% of GDP in 2011, thus remaining at readily financeable levels.

The macroeconomic scenario is subject to both positive and negative risks. A positive risk is that the recovery in the EU economy will be stronger than expected. This would lead to a stronger increase in external demand which can have positive spillovers on domestic demand.

A negative risk is that fiscal consolidation will be weaker than planned. This could have a negative impact on household and business confidence and further delay the recovery of domestic demand.

Supportive monetary policy

The banking system has weathered the downturn relatively well. However, the share of non-performing loans has increased and credit for private sector investment remains at a low level.

Nevertheless, the steady decline in private credit growth appears to have bottomed out. The NBR recently cut its key refinancing rate, allowing short term interest rates to fall. The increased political stability and the disbursement of medium term financial assistance from the IMF and the EU have contributed to this easing of financial market pressures.

Inflation remains stubbornly high

CPI inflation at the end of 2009 reached 4.7%, which is slightly above the NBR's tolerance band of 3.5% +/- 1%. The central bank has now missed its end-year inflation target for three years in a row, reflecting continued rigidities in product and labour markets, as well as increases in fuel prices and indirect taxes. The inflation projections for 2010 are affected by recent increases in excise taxes on tobacco and petrol as well as the recovery in international energy prices. On the other hand, inflationary pressures may be somewhat offset by the sluggishness in domestic demand, particularly in the first half of the year. As a result of these movements, HICP inflation is expected to fall slightly to 4.3% in 2010. Inflation is likely then to decrease further to 3% in 2011.

Slowly improving labour markets

For 2010, it is anticipated that the private sector would be able to compensate for the expected job losses in the public sector, at least towards the end of the year. However, a reduction in the unemployment rate is not envisaged at this early stage of the economic recovery. Given the usual lag between the recovery in economic activity and the decrease in the unemployment rate, the latter is still expected to inch up to 8.5% on average in 2010. The unemployment rate should start coming down in the second part of the year and into 2011, when it is projected to register an average rate of 7.9%.

Further fiscal consolidation ahead

The main objective of the March 2010 update of the convergence program of Romania is the reduction of the general government budget deficit, which had expanded significantly with the sharp growth contraction of 2009. According to the latest data, the deficit increased from 5.4% of GDP in 2008 to 8.3% in 2009, significantly above the Government's deficit target of 7.8% of GDP. This gap was caused on the one hand by payment arrears in areas such as health care and on the other hand by the lower than expected nominal GDP.

Within the context of the medium-term financial assistance program, the government made a commitment to take measures to achieve a budget deficit of 6.4% of GDP in 2010. The 2010 budget adopted by Parliament in January is consistent with this commitment and includes a package of measures to cut expenditure by about 2% of GDP and raise revenue by about ½% of GDP.

On the expenditure side, measures consist of further reductions in the public sector wage bill (including a nominal freeze in public wages), a pension freeze and cuts in expenditure on goods and services.

On the revenue side, excise taxes have been raised and a tax on medical distributors will be introduced. The budget also includes the one-off positive effect from the reimbursement of tax arrears (the Rompetrol bond), representing about ½% of GDP.

The measures included in the 2010 budget may not be sufficient to achieve the agreed budgetary target because of: (1) the base effect from the higher 2009 deficit; (2) lower GDP growth in 2010, which is now expected to be 0.5% less than assumed when drafting the budget; (3) significant revenue shortfall in the first quarter of 2010, particularly from VAT, social security contributions and income tax; (4) the fact that the government is only expected to receive around half of the initially expected revenue from the Rompetrol bond; and (5) possible expenditure overruns. Without further measures, the 2010 general government deficit could reach 8% of GDP. During the Balance-of-Payments mission to Romania an agreement is expected to be reached with the government for additional compensation measures to reduce the budget deficit.

With a view to correcting the excessive deficit by 2012, policies aimed at fiscal consolidation are planned to ontinue in 2011. In particular, the consolidation measures taken to control the 2010 budget should also help reduce deficits in later years. This together with faster real GDP growth explains the current projection of a continued decline in the general government deficit from 8% of GDP in 2010 to 7.4% in 2011. More rapid progress in reducing the deficit and achieving the 2012 deadline for the correction of the excessive deficit would require the adoption of additional consolidation measures.

Government gross debt is estimated at 23.7% of GDP in 2009, up from 13.3% the year before. The main drivers of the increase in the debt-to-GDP ratio in 2009 were the sharp rise in the deficit, the decline in GDP, the rise in interest payments and the valuation effect stemming from the depreciation of the exchange rate. While remaining well below the Treaty reference value, the debt ratio is projected to increase by 6.8 pps. in 2010 and a further 5.3 pps. in 2011 when it is forecast to reach 35.8% of GDP. These increases are mainly driven by the continued high government deficits.

Romania's Perspectives to 2013 -2020[9]

Romanian National Strategy for Sustainable Development for 2013-2020-2030 horizon establishes concrete objectives for passing to the development model of generation of high added value, fostered by the interest for knowledge and innovation, oriented towards the continuous improvement of the people's quality of life and of their relation with the natural environment.

Any sustainable development requires a significant development of the basic infrastructure. The level of development of the basic infrastructure directly influences both the level of development of the business environment and the life standards of the citizens.

The main tactical objectives stated in the Strategy are:

- Development of the transport infrastructure;
- Development of the water and sewage infrastructure;
- Development of the housing and social infrastructure;
- Development of the broadband infrastructure;
- Rehabilitation of the cultural patrimony/development of the cultural, sport and religious infrastructure;
- Development of the health infrastructure;
- Development of educational infrastructure;

The prognosis for the relevant indicators for the Cohesion Policy for Romania versus the ones of the Member States.

Globalisation indicators – prognosis to 2020[10]

- Employment Rate

[9] Reference source: Study for identification of the main priority directions of reform of the Cohesion Policy post-2013 from Romania's perspective – December 2009.

[10] Working Document of the Commission „Regions 2020" – an evaluation of the future challenges for the European Regions

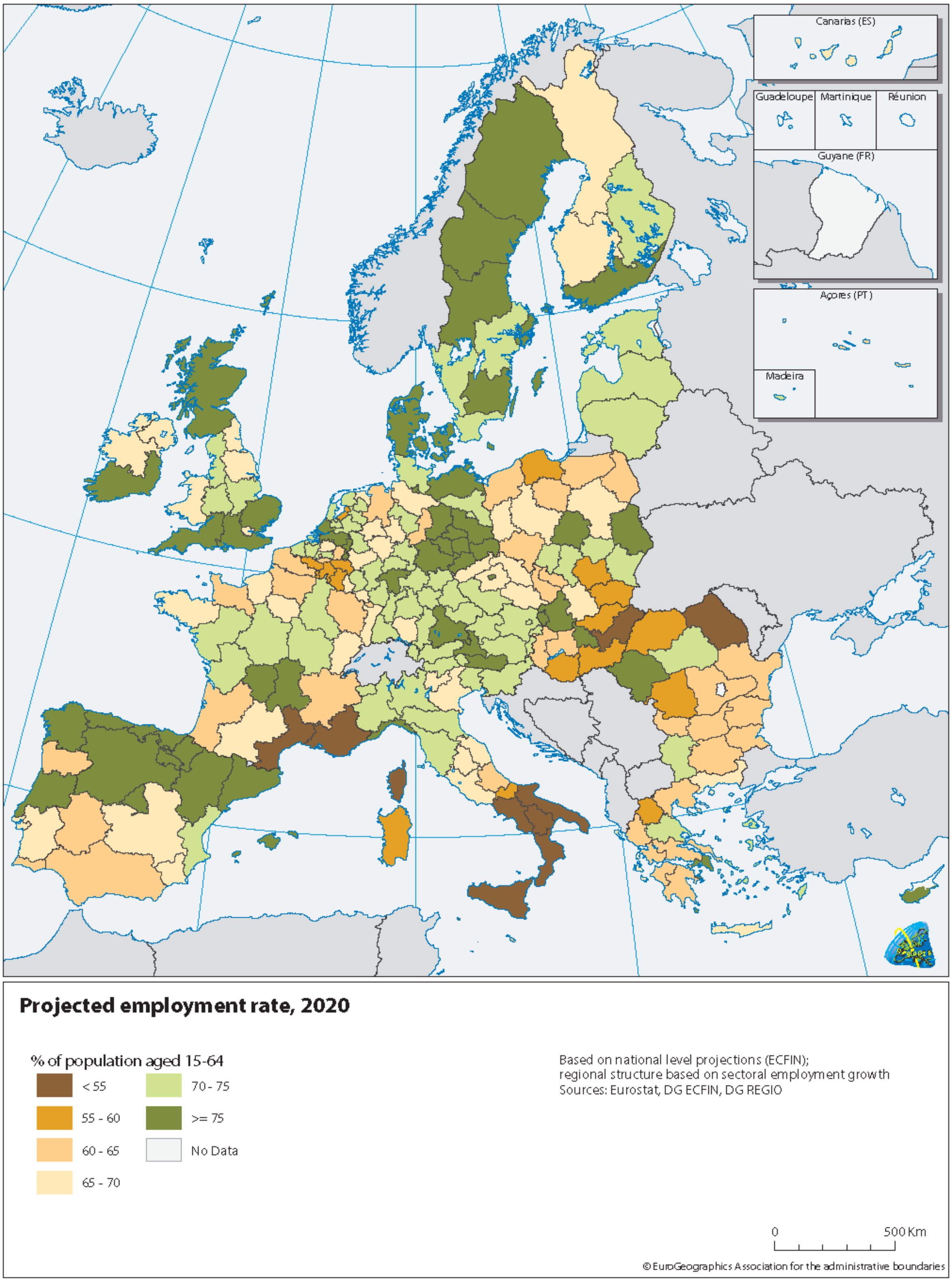
It is estimated that Romania will reach in 2020 a low employment rate as compared with the majority of the EU Member States, but similar to the ones that will be registered for Bulgaria and Hungary. Significant disparities will be registered between the Romanian regions, so that while the Centre and West Regions will display an employment rate of more than 70 – respectively 75%, the North-East Region will have an employment rate lower than 55% of the average of EU 27.

The levels of employment rates for the regions of Europe that the Commission foresees for 2020 are synthetically presented in the map bellow: "Project Employment Rate 2020".

As shown by the map, Romania will be confronted within the time frame of the prognosis, with an index of employment rather heterogeneous:

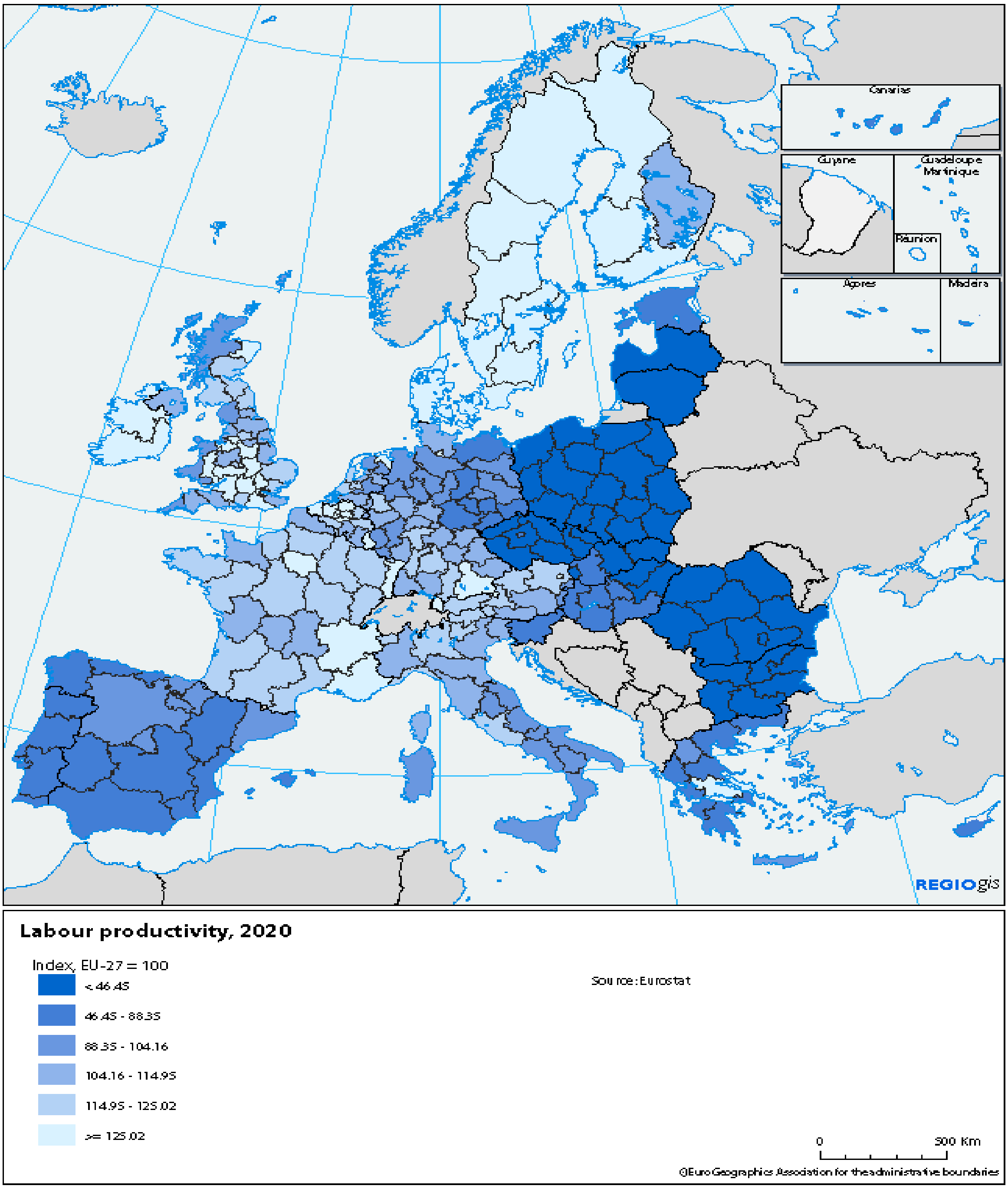
- North-East Region < 55%
- South-East Region 60-65%
- South Muntenia Region 60-65%
- South-West Oltenia Region 55-60%
- West Region >75%
- North-West Region - 55-60%
- Centre Region 70-75%
- Bucharest-Ilfov Region >75%

This prognosis represents rather encouraging news for Brasov Metropolitan Area, the vulnerability of the region against unemployment phenomena being rather low.



Source: European Commission

Labour Productivity



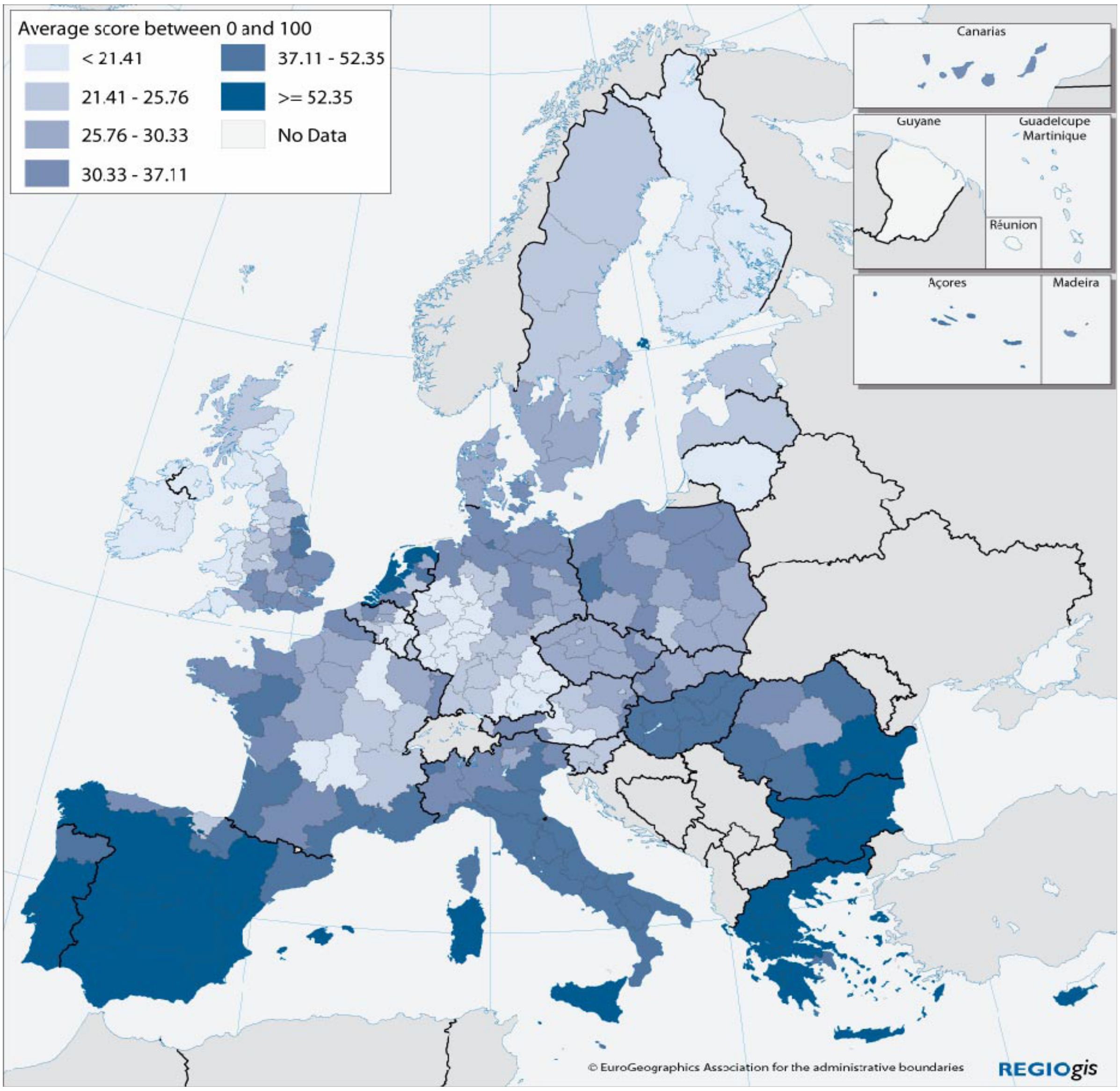
Source: European Commission

In what concerns the labour productivity, the entire Romanian territory will display a rather low productivity rate (under 46.45 – where 100 is the index for the average of EU 27)), far from the indexes for Finland, Sweden, Denmark or Ireland (above 125.02) but in the same range of values with Bulgaria, Poland, Czech Republic, Slovakia or the Baltic countries. This prognosis may be linked directly to the level of education of the labour force from the Romanian regions as compared to the other European regions for 2020. According to the prognosis there will be no significant disparities among the Romanian regions from the point of view of labour productivity level.

Level of high educational attainment

From the prognosis for 2020 it results that the level of education for Romanian regions will be rather low compared to the one of the European regions. However the good news is that the Centre Region will be among the best placed Romanian regions with a 30-35%, only Bucharest-Ilfov Region being better placed with more than 35% of the high education persons in the overall labour force.

Index of vulnerability to climate changes



As the map clearly shows, the regions the most affected in Europe are likely to be the ones located in the Southern and Eastern sides of Europe, among which are Spain, Italy, Greece, Cyprus, Malta, Bulgaria and Hungary, but also a significant part of Romanian territory, the effect being amplified in the case of Romania and Hungary by the floods. The impact of the climatic changes upon Romania will be stronger due to the low level of GDP/capita, which induces a rather low capacity of response to climatic change from the Romanian regions. It is to be mentioned that the Centre Region – where Brasov Metropolitan Area belongs - is the only region with a lower vulnerability to climatic changes, which provides for a more sustainable environment for infrastructure projects.

5. Main Problems – Criticism - Considerations on Jessica Tool Implementation (Applied to Romania / Brasov Growth Pole)

1. The only Operational Program with specific financial allocation for growth poles is the Regional Operational Program, which has under Priority Axis 1 *Support to sustainable development of urban growth poles* 74,3 million EURO for Brasov growth pole for the programming period 2007-2013. This axis has complementarities with other OPs, yet other OPs don't have allocations per growth pole, which results in lack of predictability as to the level of funding that could be attracted into a Holding Fund for Brasov growth pole; other urban funds that those specified under this axis get spent on a competitive basis, organized at national level;

2. According to latest information, 18% of funds allocated to ROP have been contracted, but no projects have been submitted under Axis 1 .This status coupled with a general structural funds absorption level of around 10% potentially creates the premises for doubting the success of a JESSICA instrument – as there seem to be little incentive for attracting urban funding under the form of grants with the obvious advantage of not needing to return the funding, the interest for JESSICA instrument should be built on other strong premises and a very important counterpart in such a discussion is without doubt the Authority for Structural Funds Coordination (ASFC);

3. A clear question to be answered refers to what steps have ASFC and the Managing Authorities taken up to present in order to make effective the stipulations of the Government Decision no. 998/2008 for designating the national growth poles that have priority for investments paid from national or EU funds. Article 3 from this Decision writes *"the Ministry of Development, Public Works and Housing as well as the Ministry of Economy and Finance coordinate the drafting and implementing of the integrated development plans for national growth poles mentioned at article 1 by involving all central public administration authorities relevant for the implementation of policies in the field of growth poles, especially those Ministries that include Managing Authorities for EU programs"*. Only ROP has already earmarked money for growth poles – if funding of UDF(s) and/or HF from other OPs is feasible and recommended, then there will be even stronger grounds for discussing with other Managing Authorities the possibility of allocating funds in their OPs for growth poles;

4. Projects preliminarily selected from the Urban Integrated Development Plan we need to be mature enough to comply with all relevant urban regulations (feasibility studies, approvals from different authorities, etc). The maturity of a project is an essential criterion to determine the access of the respective project to an UDF (as it must comply with the maturity requirements of the structural instruments);

5. Relatively late JESSICA implementation in relation to 2007-2013 programming period (cities expect non-repayable financing, additional time for UDFs establishment needed);

6. Difficult situation on credit market and restrictive requirements of banks acting as creditors may limit the potential for obtaining debt financing for projects;

7. The scope of interest in JESSICA will probably overlap in some areas with the activity of other funds on the market (e.g. national programs for energy efficiency, loans from EBRD, World Bank, etc). This should not be a problem even if existing funds are capable of offering more favourable financing conditions. JESSICA might remain an additional financing source and could finance projects which owing to any reasons do not stand a chance of finding financial support from other sources or which cannot be fully funded by these funds;

8. Lack of expertise in Brasov Region with financial vehicles for urban development, and, hence, complex analyses for selecting best administrators for future UDFs or HFs, as the case may be;

9. Lack of mature projects from the technical and financial point of view in Brasov, as well as at national level;

10. The main entities that may be able to engage in the JESSICA initiative as fund managers are banks and institutions professionally managing funds. The participation of other organizations established by public administration entities for the purpose of UDF management would require changes in the statutes of those organizations;

11. The market assessment and identification of potential participants to JESSICA should address:

a. Romanian and international banks as well as other commercial financial institutions

b. International financial institutions

c. Public administration (local government and MAs)

d. Various kinds of investment funds

e. Professional institutions managing funds that invest in real estate

f. Real estate developers

g. Non-financial institutions supporting the processes of urban regeneration and development.

6. Helpful Steps in Supporting Jessica in Romania

▪ Evaluate the feasibility of adopting the JESSICA type of facility to finance the projects listed in the Urban Integrated Development Plans of the growth poles. To this end several steps must be undertaken:

o Depict the potential projects from the ones included in the Urban Integrated Development Plans that may qualify for the establishment of UDFs

o Identify additional financial mechanisms for urban regeneration projects, additional to the one provided by way of grant by the Regional Operational Programme through Axis 1.1

o Earmark specific allocations for growth poles in other Operational Programmes in order to enhance the level of funding available to the seven poles.

o Coordinate JESSICA funding with urban regeneration funding under other sources (i.e. National Programmes);

o Evaluate the financial feasibility of the models of financing the urban regeneration projects through reimbursable funds versus non-reimbursable funds

- Identify the administrative constraints in the implementation of JESSICA approach; identify the actions needed to improve the legal framework for PPP establishing

- Identify the appropriate project promoters and organisational structures ensure the management of potential UDFs

- Identify the specific measures to be taken by the Management Authorities of the Regional Operational Programmes and by the Authority for Coordination of the Structural Instruments in order to allow JESSICA initiatives to be financed from the Structural Instruments

- Increase awareness on UDFs objectives and functioning manner among the stakeholders of the seven growth poles and improve the regulatory framework supporting them;

7. Advantages to Participating to this Type of Programs

- Exchange of experience between the partners (comparison between the national legal framework, financial framework, public administration procedures and speed of action, MA involvement and willingness to react to the changes);
- Concrete, real examples of sustainable development projects more or less "Jessicable" – analyzed during the site visits to the partners;
- Improved communication between the partner cities and their MAs;
- Started to create the expertise between partners on the principles to assess the sustainable development and the urban regeneration;
- Created a common understanding (finally!) on the UDF development and operation;
- Each partner had benefited from the National/Regional Study of Opportunity concerning the Jessica financial instrument development and implementation paid by EIB as financial expert in the project.

What missed to be perfect:

- An exchange of experience exclusively between the MA of the partners;
- The frustration related to the different approaches and mainly to the different dynamic to adopt the Jessica process.

XIII. AEDA ATHENS CONTRIBUTION

The following material is the contribution by AEDA Athens to the J4C project material for the preparation of the Final Report (developed by Regione Toscana).

The present work has 3 parts.

Part I: The answers to 3 basic questions about JESSICA and Athens/Greece

Part II: A short description of the Double Regeneration Project in Athens

Part III: A discussion document on JESSICA Applicability in Greece

Part I

<u>1) Why JESSICA is interesting for AEDA?</u>

JESSICA is very attractive to AEDA, for the following main reasons:

1) There are considerable projects, in many fields (energy, waste, rehabilitation etc.), that could be deployed in the greater Athens metropolitan area.

2) The high population congestion can lead to new ideas for urban regeneration plans, with regard to the city's main infrastructure, parks, housing, commercial and athletic facilities.

3) Being the development arm of the #1 municipality in the country, AEDA can play a pivotal role and lead the rest of municipal areas into JESSICA workable projects, as well as to provide know-how and expertise.

4) During the last 20 years (before JESSICA's inception of course), there have been developed, very successfully, a few regeneration projects in the city of Athens. These projects should be further integrated for better city functions by JESSICA projects.

5) The city of Athens has a considerable budget, a strong balance sheet with many assets, a lot of revenues and also a high credit rating. So, the potential to exploit JESSICA is significant for the city of Athens.

6) There are strong ties with the business community and the banking system.

7) Greater Athens is the area with the strongest economic activity in the country.

8) Athens also, employs the highest, year round, tourism industry.

2) What is the State of implementation of JESSICA at AEDA and our MA?

JESSICA state of implementation in Greece

1) The Ministry of Economy has signed the memorandum for JESSICA with the E.I.B. and has pledged the amount of € 100 million, as an initial start for the holding fund.

2) The new government (elected Oct 2009) has vowed to intensify efforts to implement JESSICA the soonest.

3) The Regional Authority of Attica, being the managing authority at the regional level has already procured studies for recognizing, exploring and recommending "Jessicable" projects.

4) The Mayor of Athens has pledged JESSICA as the central finance instrument for the Association of Greek Municipalities, in order to implement future urban regeneration plans and pledged to initiate the Hellenic JESSICA Network.

5) There exists substantial legislation platform, as well as the finance and business support and expertise, in order to speed things up and make JESSICA a very attractive and workable tool.

6) The recent JESSICA congress in Athens (sponsored and organized by AEDA), has given it also a considerable advertisement boost, to many big municipalities around the country.

3) Main problems - criticism - considerations on JESSICA tool implementation? (this is the project output)

1) One of the most significant problems we came across during our discussions/explorations with mayors and municipal staff was the lack of start up funds in order to make viable studies/business plans, which on their part can determine the Jessicability and the viability of an idea or an undergoing project. A JESSICA Technical Assistance Programme therefore is needed for better coordinating investment opportunities at the level of Cities/Local Authorities.

2) Another potential problem is the low degree of cooperation and between the Public Administration (Ministries) and Local Authorities. This could be overcome by the use of the Hellenic JESSICA Network, an initiative announced by the Mayor of Athens on 23 April 2010. This network, could be used as an experience exchange platform to facilitate and promote a "template" of collaboration at various levels of decision making.

Part II: The Double Regeneration Project

PROJECT DESCRIPTION

The DOUBLE REGENERATION PROJECT is an ambitious city planning project, which promotes the simultaneous regeneration of *two* areas in the Municipality of Athens ("*double*" regeneration): The Eleonas area and the Alexandras Avenue area (see picture 1). The project includes the relocation of the historic stadium of the city's football team Panathinaikos from Alexandras Ave. to Votanikos.

Picture 1: Double Regeneration

Eleonas - Votanikos

Picture 2: The 5 municipalities of Eleonas.

The Eleonas area (extending to about 9,000 km^2) bears the same name since the ancient times ("olive plantation"). Eleonas is situated in a hub area, primarily due to its vicinity to the centre of Athens (3 km from Omonia square) but also to its vicinity to the port of Piraeus (6,5 km). It is intersected by major roads such as the National Road Athens - Lamia, the Athinon Avenue, the Iera Road, the Petros Ralli as well as by the National Railway. Furthermore, a metro station exists inside its boarders.

Eleonas falls within the boundaries of five Municipalities (see picture 2). One of them is the Municipality of Athens, which owns 2.100 km^2 of the Eleonas area.

Eleonas is a former and also current industrial area, almost deserted of the population, showing lack and unsuitability of basic urban structures and services, social segregation, environmental damage and aggravation of the conditions and quality of life of surrounding areas.

Eleonas is an area, whose transformation has been pending for many years and its regeneration is crucial for the smooth development of the Attica basin, since to a large extent it connects western suburbs to the Athens center.

Alexandras Avenue

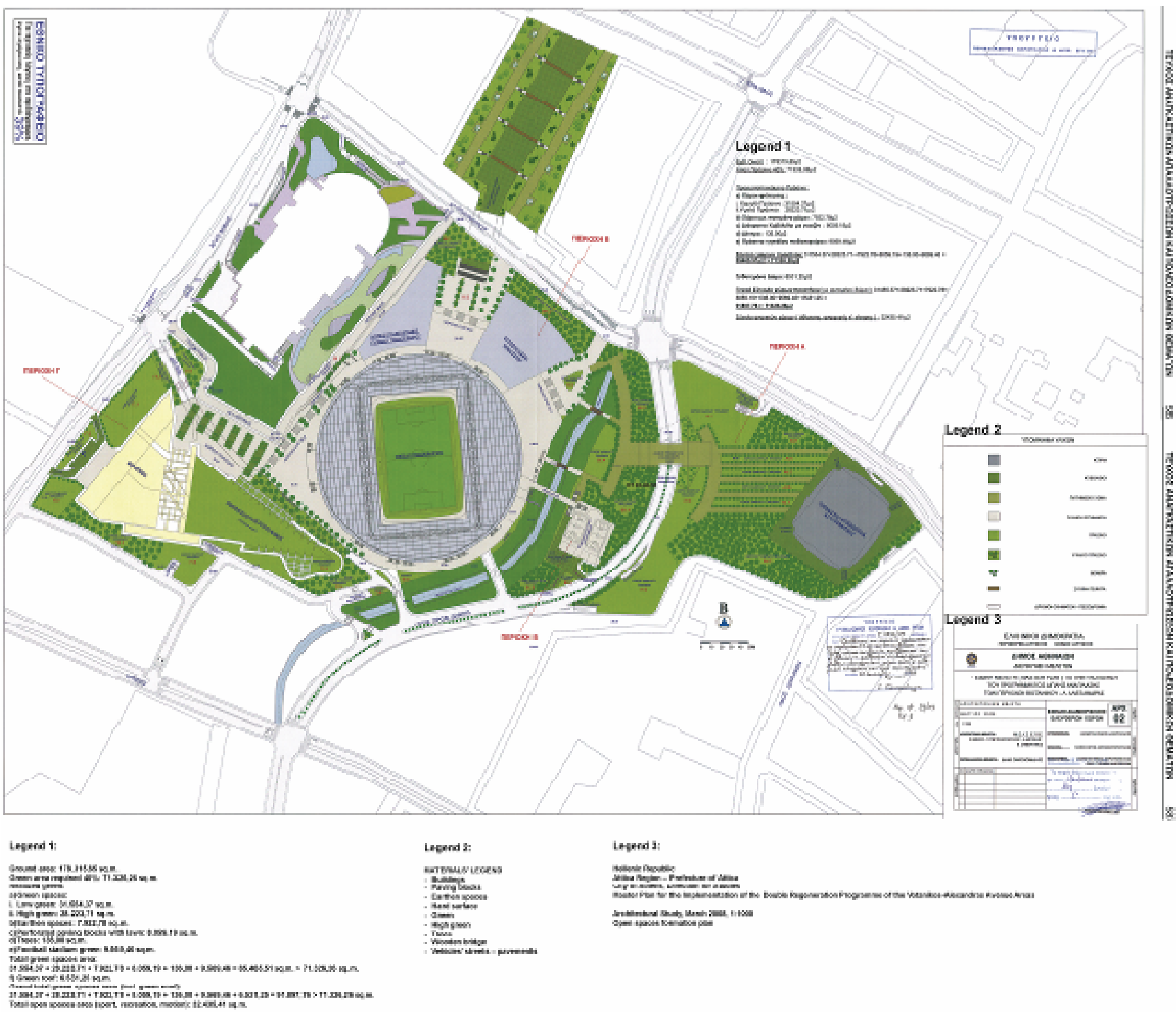
Alexandras avenue is one of the major avenues of the Athens Municipality, connecting its eastern districts with the centre. On the avenue, the historic Panathinaikos football stadium is built. The car traffic, noise and pollution caused by the stadium operation are incompatible with the presence of hospitals in the vicinity. In addition, the densely built area shows serious signs of deterioration in terms of building, housing and the environment, especially a serious lack of green.

Urban Planning Regulation of Law 3481/2006 (Greek Official Gazette A'162-2/8/2006) modified the Greater Athens Master Plan and arranged two new metropolitan poles for recreation, sports, cultural and other supplementary operations in the Athens Municipal area ("Double Regeneration Law"). The modification is in accordance with the guidelines of the Greater Athens Master Plan and the Municipality of Athens General Urban Plan for the creation of metropolitan poles for recreation, large scale interventions for the upgrading of the city and urban green unification. In the selected new poles Eleonas and Alexandras Avenue the law specifies the following modifications.

Votanikos, Eleonas

According to the Double Regeneration Law, a new unified area will be constructed enclosed within the streets of Orfeos, Agias Annis, Agiou Polikarpou and the Profitis Daniel stream (see picture 3) and will include:

- Construction of a football stadium for the Panathinaikos football club with a capacity of 40,000 seats according to 4 star FIFA-UEFA standards, with athletic facilities;
- Construction of an indoor basketball and volleyball court with a capacity of 8,000 seats;
- A multifunctional municipal building;
- A shopping and recreation center;
- Creation of necessary overground and underground parking spaces;
- Creation of public park areas of approximately 120,000 m^2;
- Infrastructure works backing up the project including widening of the surrounding streets, as well as reconfiguration of the course of the Profitis Daniel stream and creation of a riverside street, sewage works etc.



Picture 3: Double Regeneration plan for Eleonas

Alexandras Avenue

According to the Double Regeneration Law, the area is classified as a public park in which:

- The existing field will be torn down;
- A recreational park of approximately 17,000 m^2 will be constructed;
- An athletic museum-meeting hall of an area of 150 m^2 as well as a recreation and dining area of 250 m^2 will be constructed- i.e. a total structured surface of 400 m^2;
- A public, underground parking space will be constructed with a capacity of 700 places, for use by inhabitants, the nearby Metro station passengers, and visitors.

For the Double Regeneration purposes the company Double Regeneration S.A. was established as a special purpose vehicle (SVP). Company shareholders are the Municipality of Athens and the National Bank of Greece.

REALIZATION OF THE PROJECT

Currently, the Double Regeneration procedures have come to a stop, due to legal complications following a Administrative High Court decision. In March 2010, the Ministry for Environment announced a new proposal for the Double Regeneration Project, which will lead to a new law, in accordance with the court's decision. The proposal includes, for Eleonas, abolition of the municipal building, the basketball-volleyball court, reduction of the commercial uses inside the football field, reduction of floor-space-ratio of the shopping and recreation center from 1,6 to 1,2, reduction of building by 60%, i.e. by about 66,000 m^2 and 30.000 m^2 more green and open spaces than the amount provided by the old law.

Part III: General Discussion about JESSICA applicability in Greece

(the following document reflects the discussion the was originally developed by Dr. Nikos Triantafyllopoulos at the JESSICA 4 CITIES meeting in Athens on 22 April 2010 at the partners'meeting)

JESSICA is an innovative instrument for promoting and financing integrated projects as part of a wider strategy for sustainable urban development. The projects that can be financed using JESSICA must be included in an integrated plan for sustainable urban development. JESSICA changes the profitability and risk profile of the involved parties in an urban regeneration project, minimizing financial obstacles resulting from the low IRR, high risk level and usually, and insufficient public financing.

1. Some preliminary remarks:

Urban regeneration matters are present in urban policy in Greece, all emphasizing the importance of valuing urban territory and reconstruct "the cities on the cities". On the contrary, it is not certain that there is a strong institutional framework focused on urban regeneration. Under URBAN programmes some urban regeneration projects have been realized in Greece (Heraklion, Volos, etc.). They were fully subsidized by European and national Funds. Important experiences have been drawn from these programmes on the difficulties of urban regeneration projects, but the current regeneration PPP relationships are completely undeveloped, as previous regeneration projects have not focused on the role of private finance delivery.

Urban Regeneration Programmes are not included in the Regional Operational Programs, with the exception of Attica O.P. and one other, while JESSICA is not really mentioned and examined.

There are no UDFs already existing in Greece. They could be spatially-led, defined by spatial boundaries and invest in a range of projects, although several sector led UDFs can also be created to achieve the same aim in several locations. It is not sure that public sector is able to efficiently help to set up the early funds and create the missing experience.

The use of JESSICA through a Holding Fund may help the process of setting up UDFs, as both the public and private sectors will receive support from the holding fund manager, but decisions of the Ministry of Economy were postponed to June 2010.

Private sector, both banks and construction companies have not really been actively involved in the JESSICA implementation process.

2. What needs private sector to be involved in an urban regeneration project?

According to academic research, the factors perceived necessary to improve the flow of the private sector finance are identified. Does JESSICA satisfy their requirements?

Private sector requirements	Does JESSICA meet these requirements?	
	YES	NO
Contamination remediation		√
Simplified administration of funding	√	
Clarity in public policy and processes		√
Simplified administration of funding	√	
Land assembly		√
Targeting of initiatives according to the private sector's priorities and commercial requirements	√	√
Simplified planning procedures		√
Guaranteed minimum standard of infrastructure		√
Environmental enhancement initiatives		√
Commercially-based marketing strategies for urban regeneration strategies	√	√
Long-term tax breaks		√
	4	9

Which are the reasons for non-investment in urban regeneration?

Reasons for non-investment	JESSICA revokes these reasons?	
	YES	NO
Rental growth – end users occupier demand		√
Capital appreciation/investor demand		√
Perceived level of risk	√	
Quality of proposed development		√
Long-term sustainability of the project	√	
Construct costs/land costs	√	√
Quality of the neighboring environment		√
Site assembly/land packaging		√
Availability of grant regimes	√	√
Development mix of the project	√	√
Partnership structures/facilitating arrangements	√	
Employment potential/quality of labor force		√
Taxation breaks		√
	6	10

The above tables demonstrate that JESSICA is certainly not able to ensure urban regeneration project success. Factors perceived to improve the flow of private-sector finance into urban regeneration highlight the significance of a range of non-finance based instruments. Some of these factors are relatively easily manipulated, but the most difficult factors to intervene are those related to properties per se and urban planning.

JESSICA aims at resolving the very difficult problem of urban regeneration funding.

Urban regeneration projects are generally perceived by private sector investors to carry more risk than greenfield sites. The attraction of an increased flow of investment into inner city localities is seen to require the use of a combination of financial mechanisms such as those provided by JESSICA, but also flexible administrative procedures, disposal of sites and use of site licence agreements.

A master plan approach is considered essential so that investors can realise their commitment to a particular scheme, whereas an incremental approach is unlikely to stimulate private sector investment in urban regeneration locations to the same degree. Nevertheless some local authority participants are of the opinion that large scale public sector funding in urban regeneration projects has soft bedded the private sector or at least favoured some relative to others.

Flexibility is the key word in urban regeneration projects.

Flexibility in finance: it seems that through JESSICA we can achieve flexibility on finance, although risk elimination is not possible, and in fact, it is not desirable.

Flexibility in planning: one of the most important facts is the management of land rent, before and after urban regeneration projects.

Risks and timing

Various risks are associated with the land-based financing of urban regeneration. Risks mainly depend on the rents level at the end of an urban regeneration project.

During the last decade, financial deregulation has led to volatile real estate markets in Greece. Due to the recent financial and real estate market crisis, the demand for land and the price of urban parcels have start to fluctuate, or more precisely, to be in downturn. Under this present situation and for the next five years at least, it will be an opportunity for investments in real estate in urban regeneration areas.

Administrative risks are mainly related to urban planning inflexibility and the existence of inadequate procedures and tools.

Existing Institutional framework use and improvement

There are statutory or legislative barriers that could prevent JESSICA instrument in Greece, and must investigate the appropriate options to change. Due to the long time procedures to improve Greek institutional framework, it is proposed to proceed with relatively minor changes in order to make effective the existing Laws for JESSICA projects, than to elaborate a new framework.

JESSICA projects on urban regeneration and rehabilitation have a real estate investment character. For this reason, we focus our attention on the creation of Real Estate Investment/Management Funds, as investment vehicles. It is to examine the use of the L. 2778/1999 on Greek REITs and the type of the Fund (Open-ended, Closed Ended). Shareholders of this fund may be the property owners within the urban regeneration area. Properties that will be included in the assets of a Fund, held either through the right of ownership or leasehold (L. 3156/2003, L. 3581/2007).

When managing this Fund, the management company must act on its own behalf, but for the joint account of all unit holders within a scope of a management agreement. When doing so, the investment company must act in the interest of the unit holders.

According to the planning institutional framework, it is possible to create Mix Economy Companies, operating under the provisions of the Laws 947/1979, 1337/1983 and 2507/1997. Municipalities must hold about 34% of their shares. Real Estate Investment/Management Funds could be shareholder of the Mix Economy Company. This Company must conduct all urban regeneration studies and works.

At the planning level, one significant advantage of the Mix Economy Company instrument use stands on the its institutional means for the acquisition of private properties within the designated urban regeneration area, which consists to a major problem:

- By purchase by the Mix Economy Society/Real Estate Investment/Management Fund.
- Property owners may willingly transfer their properties and the rights associated to the Real Estate Investment Company and thus begin shareholders.
- According to the Law 2508/1997 on the sustainable development of cities, urban regeneration programmes are considered as actions promoting community

development and welfare. Thus, expropriation of public properties is possible. Compensations may be financed by the UDF or through the tool of Transfer of Development Rights (although there are constitutional problems to be addressed by the State Council regarding the L. 3044/2003). Finally, JESSICA projects are Public Private Partnership projects. Flexibility in properties' expropriation is ensured by the relative L. 3389/2005 on PPP.

Both Mix Economy Companies and Real Estate Investment/Management Funds benefit of important tax advantages, especially on the transaction costs for properties acquisition and the corporate income deriving from securities, rents and capital gains. Tax advantages significantly increase profitability for private investors and flexibility.

XIV. CONCLUSIONS AND RECOMMENDATIONS

JESSICA and UDFs have been considered from its very beginning a very positive initiative within the framework of European instruments for local urban development.

The JESSICA initiative (together with JEREMIE and JASMINE), which introduces UDFs as new financial instruments, has attracted the attention of many Managing Authorities and Municipalities.

JESSICA is based on a mechanism whose aim is to substitute the traditional grant giving with a "revolving" financial instrument – based on shares, guarantees or loans - for the implementation of projects with public/public or private/public ownership.

In this sense, JESSICA entails a significant change in mentality,

The economic and financial sustainability based on the cash flows produced by the Fund (i.e. Jessicability critera of the projects) is the essential condition to guarantee the recycling of the resources and the rotation of the Fund.

The UDFs have been perceived as an opportunity particularly in a phase where the Local Administrations are facing all sort of financial difficulties due to the cuts of money transfers from their central governments, the restrictions linked with the Stability and Growth Pact, the interest cost of the growing local debts and, last but no least, the negative effects of the crisis on the fiscal framework and on the local economic systems.

The current macroeconomic situation, which has led to a sharp drop in income for public accounts, will in all certainty determine the level of investment made by government bodies in towns in the coming financial years.

Under the current conditions, and based on the foreseeable scenario for the next three years, some capitalisation of investments is necessary, in cooperation with businesses and financial institutions, by means of appropriate structuring.

The aim is to share costs in order to execute investments and distribute income among local institutions (so that they defray current expenditure) and private partners (to remunerate their capital contributions)

In this context, JESSICA is the ideal tool to meet this need as it would enable investments to be cofinanced by means of public-private collaborations.

First, the financial feasibility of the initiatives should facilitate participation by private partners and second, the participation of government bodies will provide more the participation of government bodies will provide more substantial guarantees financial institutions in a context of heavy credit restrictions.

According to the JESSICA methodology:

- UDFs are a possible solution for financing urban infrastructure through long term loans;

- the concept of sustainability which is mentioned in the various documents refers both to the single infrastructure (which needs to produce a yield, at least partially) and to the duration of the loan (which has to be connected to the long term yield of the infrastructure);

- UDF is composed by the resources of the ERDF Operational Programmes and by other public and private resources;

- UDFs do not operate mostly under the national regulation of public savings, and then under control of central banks (such as Real Estate Funds, Close End Funds, etc.);

- the "jessicability" of the projects (beyond the terminology which refers to the acronym of the initiative) is related and could be measured according to traditional standard methodology of revenue calculation (auto-financing) and sustainability of projects;

- resources (ERDF and additional ones) can be invested in projects via UDF directly or via Holding Fund.

However, the European legal framework is neither clear nor definitive. The 2006 Regulations and the two interpretative COCOF notes added to them, are subject to further new modifications (in addition to the ones published in 2009); the operational manuals prepared by the Commission with the assistance of the EIB will be ready after the summer 2010.

The timing for the construction of UDFs, the definition of the operational rules and of the planning activity is not easily compatible with the timing of the Structural Funds.

There are some doubts and questions regarding the application of the rules of the Structural Funds to the JESSICA scheme (rules regarding the reimbursement of the not invested resources, the timing for the ending of the investments and for the carrying out of the projects, etc.) which the Commission has started to answer, at least informally, only very recently. Moreover, some of those informal answers do not seem to find the sufficient legal basis in the Regulations, but they seem to be rather interpretative positions taken up by the

Commission (for example: the projects financed by the HF have to be concluded within 2 years from the closure of the operational program);

Every Member State has its own legal framework and operational modalities for the implementation of the JESSICA instrument, and as a consequence the legal form of such instrument must comply with the specificities of each national legal setting. A comparative analysis is long due; if it had been done at the outset of the project many doubts and problems of interpretation could have been avoided.

The mis-match in the timing of the J4C project and the instruments produced by the Commission to assist the proper understanding and implementation of the project:

- JESSICA: launch 2006
- J4C start April 2008 - closure May 2010
- Revision of the Structural Funds Regulations: March and September 2009
- Third Revision for Structural Funds: expected in Summer 2010
- Operational Manual UDF and Evaluation Study on State Aid: expected by November 2010

Many experiences in the creation of Holding Funds have already been set-up and some calls have been launched for the selection of the UDF to be financed by the Holding Fund, but no concrete cases have started yet on which a benchmarking analysis may be done.

Finally, a serious problem comes forward in relation to the constitution of a Revolving Fund with zero interest rate which is bluntly incompatible with the State Aid legislation (in relation to EU competition policy in financial markets).

The JESSICA for Cities Project has gathered together Managing Authorities and Municipalities from all over Europe to share opinions and experiences on how to use this kind of instrument and to reach a common understanding on JESSICA and UDFs.

URBACT II has given Project Partners the possibility of:

- exchanging experiences and learning (comparison between the national legal framework, financial framework, public administration procedures and speed of action, MA involvement and willingness to react to the changes);

- studying the different approaches and the different dynamic in adopting the JESSICA process;

- sharing doubts and problems;

- improving the communication between the partner cities and their MAs (but not for all partnerships);

- comparing local, concrete, real examples of sustainable development projects (a large range of partners' projects may become 'jessicable').

ANNEX I

EIB CONTRIBUTION: IMPLEMENTATION OF JESSICA IN THE "J4C" COUNTRIES (JUNE 2010)

1. GREECE

Following a kick-off meeting in March 2007 and follow-up meetings in May/July of that year in Athens, EIB mandated DTZ Greece (currently SouthEast Real Estate S.A.) to undertake a preliminary national JESSICA scoping study. This study was conducted during the last quarter of 2007.

In the meantime, EIB was asked by the Greek Managing Authority to prepare and submit a JESSICA Memorandum of Understanding (MoU). The MoU, which was negotiated through the summer of 2007, outlined an initial approach towards the implementation of JESSICA, at a national level, envisaging the appointment of EIB as a JESSICA Holding Fund. Eventually the signature of the MoU took place in Athens on 12 December 2008.

The signature of the MoU acted as a stimulus to the whole process and in 2009 some progress was made towards finalising a Funding Agreement. In addition, following a February 2009 meeting in Athens, it was decided to proceed with a supplementary evaluation study concentrating on "Energy Efficiency" and "Waste Management" as possible sub-sectors for JESSICA support.

The reports produced following the supplementary study - on energy efficiency" and urban solid waste management - indicate that there is significant potential for JESSICA intervention in these areas and have identified some pilot projects that might benefit from JESSICA deployment.

In 2008-2009 progress with the implementation of JESSICA financial engineering instruments in Greece was delayed by negotiations between the Managing Authority and EIF regarding the implementation of the JEREMIE initiative, while the holding of national elections in October 2009 further deferred decisions at a political level.

Both parts of the supplementary evaluation study have been concluded, with findings indicating that a number of relatively mature projects and/or initiatives could be suitable for JESSICA financing. At the time of writing (June 2010) negotiations on a JESSICA Funding Agreement of about EUR 258m have been finalised and the latter is scheduled for signature on 1 July.

2. ITALY

A preliminary scoping study was completed at the end of 2006, and the official kick-off meeting took place in Rome in June 2007.

The MAs responsible for mobilising JESSICA resources in Italy are primarily the regions, therefore work to launch JESSICA in Italy has adopted a decentralised approach, concentrated on establishing partnerships with the key actors in urban development and financing. After the kick-off, several follow-up meetings were held with regional authorities, Cassa Depositi e Prestiti (Cassa DDPP) and the Ministry of Economic Development. In 2007, Tuscany agreed to act as co-ordinator in a working group in charge of studying concrete ways to set up UDFs for the Competitiveness regions, while Campania agreed to do the same for the Convergence regions. Already in early 2008 Campania expressed the intention to consider JESSICA instruments for the "PIU Europa" programme concerning 19 medium-sized cities within the region. In addition, several municipalities, mostly in the centre-north – such as Ferrara, Torino, Genova, Modena, Parma, Piacenza - showed interest in setting up city-based UDFs of the type envisaged in JESSICA.

Two of the MAs under the Competitiveness objective regions, Tuscany and Liguria requested in March 2008 studies to consider the implementation of JESSICA instruments in their regions. These studies have been completed and the final reports are available on the EIB website in English and Italian. The Liguria JESSICA evaluation study proposes the establishment of a UDF supporting the development of the city of Genova as a university and high-technology pole, and the Erzelli scientific park as the flagship project in this strategy. The Task Force and its consultants have worked closely with FILSE, the region's in-house financial institution, to develop a model for this UDF and its practical implementation.

Close co-operation was also established with the Banking Foundations (*Fondazioni Bancarie*), Italy's leading charitable/non-profit players in urban regeneration financing, and prospective partners in setting up UDFs at city level. ACRI, the Association of Banking Foundations, decided in March 2008 to financially support SINLOC (a company specialised in providing local development consulting services controlled by the Foundations) as a lead partner of a consortium including the Turin Polytechnic, Prometeia and ISMU in the development and testing of a diagnostic and forecasting tool for the evaluation of investment needs in cities. Work has continued for the establishment and dissemination of a methodology for the assessment and structuring of sustainable investment in city areas, which will support the operation of UDFs in Italy. Many of the funding vehicles could be supported or established by the Foundations, and could directly stimulate the diffusion and adoption of the JESSICA financial engineering instruments over the 2007-2013 programming period.

In February 2009, the Puglia region and, in March 2009, the Marche region officially requested JESSICA evaluation studies. They were launched immediately, have been completed, translated into English and should be published in the Autumn 2010. The results of the Marche evaluation study were presented officially in November 2009 in the course of an event at the Region's headquarters in Ancona. On that occasion, a JESSICA MoU envisaging the establishment of a Holding Fund of up to EUR 20m was signed. The final decision on the establishment of the HF is expected to take place after the March 2010 regional elections. It is also expected that the final results of the Puglia study will be presented officially after the election.

In July 2009, after discussions in Palermo with the regional authority, Sicily also requested a study. The study was launched in September and is now close to completion. In December 2009 following the initial indications from the study, the Managing Authority stipulated a Holding Fund agreement worth EUR148m with the EIB, to support investment under the sustainable urban development Priority Axis of Sicily's operational programme.

In March 2009, the Abruzzo region had expressed interest in the adoption of JESSICA instruments. This was further re-emphasised in the aftermath of the catastrophic earthquake of 6 April 2009 and following the July 2009 reformulation of the Operational Programme to take into account reconstruction priorities. The Abruzzo region requested in August 2009 a JESSICA evaluation study which was launched in September. The Regional Council approved the text of a JESSICA MoU, which envisages the establishment of a EUR30m Holding Fund and includes also as signatories the four provincial capitals. The MoU was signed at the end of January 2010.

Meetings with the Campania region in July 2009 confirmed their interest in implementing JESSICA instruments, a request for an evaluation study was submitted and the inception report was delivered in December. The Campania region confirmed its interest by assigning to the EIB a Holding Fund mandate worth EUR 100m in March 2010.

In February 2010 the Tuscany region asked for a focused study to follow the evaluation study carried out in 2008. The new study, which has been launched, will assess the applicability of JESSICA instruments to the projects contained in the PIUSS[11], i.e. the integrated urban plans produced and submitted to the region by eligible municipalities for funding under the OP urban priority axis.

The key challenge in Italy is connected to the need to convince individual regional authorities in a decentralised decision-making system of the value added offered by JESSICA. In Italy, regions with a more sophisticated sustainable urban development agenda and more experience in using revolving instruments tend to be under the Competitiveness objective and have therefore relatively limited SF, while Convergence regions, with more substantial SF resources, have often been slower in implementing sustainable urban development strategies as part of their OP's and less inclined to use revolving instruments. The adoption of JESSICA structures by some pioneer regions, with or without the EIB acting as a Holding Fund, is essential to secure a wider acceptance of the instrument. This has now been achieved in two Convergence regions.

Thus the approach adopted by the JTF to secure the establishment of JESSICA operations in Italy is flexible, participative and collaborative, with the EIB taking on the role of HF, if requested, possibly acting side by side with local financial institutions (such as regional financial companies), and with the HF being presented as a service structure for the MAs. So far this strategy has been successful in securing requests for evaluation studies in Tuscany, Liguria, Marche, Puglia, Sicily, Abruzzo and Campania, the signature of MoU's in the Marche and Abruzzo regions and HF mandates in Sicily and Campania.

While the evaluation studies are advancing toward completion in Sicily and Campania, the Bank has already started operational activities - in Sicily, where the first Investment Board meeting took place in early April, and in Campania, where it is following the region's current call for project proposals by municipalities, with a view to co-ordinate it with the requirements of JESSICA-type financial engineering instruments

[11] Piani Integrati Urbani per lo Sviluppo Sostenibile.

3. POLAND

The Polish National Cohesion Strategy delegates urban regeneration issues to regional authorities. Consequently, projects related to urban regeneration and revitalisation have been included in Regional Operational Programmes (ROP) which are managed by the 16 Polish regions acting as Managing Authorities (MA). This approach reflects the general policy of the Polish government to decentralise decision making with respect to regional development issues. In this model, the role of the Ministry of Regional Development (MRD) is limited to coordinating and monitoring activities.

Urban regeneration constitutes one of the priority axes in all 16 ROPs, although in some it is mentioned in conjunction with other priorities, such as development of the metropolitan roles of cities or strengthening of regional cohesion.

A JESSICA kick-off meeting comprising EIB, the Council of Europe development Bnak (CEB), DG-Regio, the Managing Authorities, the Polish Regions and representatives from selected municipalities was held in March 2007.

A legal study was launched in June and completed in September 2008. The study defined, among other issues, the most appropriate legal forms to be chosen for HF/UDF. In addition, compatibility of several laws and regulations were reviewed. The study confirmed that the implementation of JESSICA is feasible in the Polish legislative context. At the same time, it highlighted some major issues to be tackled for the implementation of JESSICA in Poland. The conclusions of the legal study were presented and discussed on September 2008 with the participation of MAs, EIB, CEB and DG-REGIO.

Following requests from the MA’s two evaluation studies (covering Zachodniopomorskie and Wielkopolskie as well as Dolnoslaskie and Malopolskie regions) were commissioned in August 2008 and carried out in cooperation with CEB, MAs, Steering Committee Members and DG-Regio. Final reports were submitted and formally presented to the MAs, the Commission and the Ministry of Regional Development in January 2009.

Following positive results from the studies, Wielkopolska and Westpomerania regions decided to set up JESSICA HF’s with the EIB. The relevant funding agreements were signed in April and July 2009 respectively. Together the regions contributed a total of EUR100m to their HFs for the purpose of supporting UDF's investing in various urban regeneration projects. As a part of the ensuing implementation process, various practical and legal issues had to be addressed prior to selecting financial intermediaries. Consequently, following the assignment of these mandates the JTF performed various promotional activities, establishing contacts with potential UDF managers, reviewing urban projects in Wielkopolska and Westpomerania potentially suitable for JESSICA financing and engaging in more detailed legal analysis, including State Aid issues.

Promotional activities undertaken by the EIB with the assistance of locally employed consultants included meetings and seminars conducted in Poznan, Szczecin and other cities with financial institutions, regional development funds, investment agencies, municipal governments, developers and PPP operators in order to raise knowledge about JESSICA and present benefits of participation in the initiative as UDF managers. EIB has also contacted municipalities from Wielkopolska and Westpomerania regions in order to present the objectives of JESSICA in these regions, explain in detail possible financial mechanisms under JESSICA and to receive feedback regarding the particular needs of cities in terms of urban development and revitalisation. The purpose of those meetings was also to identify candidate JESSICA projects and gauge the interest, expectations and constraints of cities as regards their possible future participation under the initiative.

Additionally, following the request from the Wielkopolska HF Investment Board (IB), the EIB has undertaken several activities, including commissioning state aid analysis by external legal advisers as well as meetings with the Polish Ministry of Regional Development (MRD) and DG-Competition, to analyse the potential relevance of State Aid in the context of JESSICA financing. It must be noted that as required by legislation, State Aid issues should be addressed at national level through direct contacts between MRD and DG-Competition. Both the EIB, within the remit of the HF mandate, and the MA are assisting the MRD in this process.

Following the completion of this analytical phase, the EIB prepared a strategy for UDF selection, which aimed to meet the objectives of the Wielkopolska ROP and the JESSICA Holding Fund. This strategy has been translated into a call for Expression of Interest (EoI), which has been approved by the Wielkopolska HF Investment Board at the beginning of March 2010. Following this decision, a Call for Expression of Interest was officially published, which initiated the process of selecting a UDF (or UDFs) for the Wielkopolska Region. In parallel, the EIB has prepared the call for EoI for the Westpomerania Region, which was launched in May 2010. As a result, it is expected that the first UDFs could be selected by the end of 2010, in Wielkopolska and Westpomerania respectively.

In parallel to the activity in Wielkopolska and West Pomerania, the EIB has received indications from other Polish regions declaring their interest in JESSICA. In May 2009, the region of Silesia requested a JESSICA evaluation study. The study was completed in December 2009 and took into account results of previous studies carried out in Poland, while focusing on the situation in Silesia. A similar complementary study is being prepared for the Pomerania Region and was finalised in April 2010. HF negotiations with both regions were finalised in June, with the Pomerania HF to be EUR56.8m and Silesia HF to be EUR60m. The Silesia HF should concentrate on urban regeneration projects arising from the revitalization of post-military and post-industrial areas and regeneration of large elements of degraded urban infrastructure. The Pomerania HF will be more directed towards development of the transport system, energy efficiency, re-development of post-military and post-industrial areas as well as area-based urban regeneration

Further decisions by other Polish regions on whether to take JESSICA forward will depend on the progress made with Wielkopolska, Westpomerania, Silesia and Pomerania and experience gained in this process. In this respect, initial declarations of interest were also received from the Mazovia and Lodzkie regions.

In the upcoming months, the EIB will focus on managing and supervising the calls for EoI in Wielkopolska and Westpomerania, which involve intensive work with respect to the appraisal of offers and the preparation and negotiations of the operational agreement to be signed with the selected UDF/UDF’s.

4. PORTUGAL

In February 2008 a kick-off meeting was held in Lisbon. The meeting was attended by representatives of DG-Regio, EIB, CEB, Instituto de Habitação e Reabilitação Urbana (IHRU), as well as the Secretario de Estado do Ordenamento do Território e das Cidades, and the Secretario de Estado do Desenvolvimento Regional.

Subsequently, several meetings took place in order to discuss and formulate the concept for JESSICA implementation. As a result, a MoU was signed in December 2008 agreeing to support JESSICA deployment and requesting a focused study on the most appropriate configuration of UDFs and pilot schemes/projects to take it forward, given the preferred vehicle architecture. A JESSICA Evaluation Study was launched in January and finalised in June 2009 and is now published on the EIB website. It was complemented by a specific legal study confirming the feasibility and opportunity of implementing of a HF in Portugal.

Following the a HF mandate signature took place in July 2009 in Lisbon for a total amount of EUR130m. The HF is composed of EUR100 m of ERDF and EUR30m of national contribution. The ERDF component comprises EUR30m from the OP for Territorial Enhancement, EUR30m from OP Norte, EUR20m from OP Centro, EUR5m from OP Lisbon, EUR10m from OP Alentejo and EUR5m from OP Algarve. The national contribution of EUR30m comes from Direcção-Geral do Tesouro e Finanças. While the essential composition of the HF was agreed, it became clear that a further national contribution was needed to match the EUR100m ERDF funding, and discussions with the various MAs to find a solution are ongoing.

The first Investment Board (IB) meeting took place in Lisbon in January 2010 where a number of administrative tasks were undertaken, e.g. concerning the organization of the Investment Board, the President and the Secretary were appointed and the Internal Rules of Procedures and Code of Conduct were signed. The constitution of a JESSICA team in Portugal were also discussed, including the Terms of Reference for Business Consultants and Legal Advisors and the hiring of a Local Holding Fund Manager.

As a result of promotional efforts undertaken in 2009, the JESSICA Task Force has been contacted by a number of promoters and potential UDF candidates showing interest in the initiative. Concerning State Aid issues, the proposed final product is currently being evaluated by legal experts. However, it is anticipated that the support for urban development projects under JESSICA instruments in Portugal will be in compliance with state aid regulations, on the basis that the support is to be provided in line with market conditions.

As key outstanding administrative tasks have now been completed, the objective is now to find an appropriate solution together with the MAs and IFDR to solve the matching fund issue and thus start work on the preparation of the call for EoI for the selection of UDFs.

5. ROMANIA

Given the Bank's activity in Romania connected to the funding of the national contribution to the 2007-2013 OP's, various contacts were made early in 2007 with a number of MA's in order to introduce JESSICA. The need for funds to support sustainable urban development is high, and integrated urban development is explicitly included as a priority axis in the Regional Operational Programme (ROP). The Romanian authorities have also commissioned consultants to work to identify and define integrated urban development plans within the ROP.

A JESSICA technical meeting was held in November 2007 with the PPP Unit of the Ministry of Economy and Finance. The unit finalised a feasibility study with respect to the establishment of a national Municipal Infrastructure Fund (MIF) and it believed at the time that JESSICA could complement and possibly co-invest in such a fund, which is designed to attract private sector institutional investment to meet the massive municipal infrastructure needs in Romania. Additional introductory JESSICA meetings were held with the Municipalities of Bucharest and Oradea. The EIB considers the potential for JESSICA and for a pro-active involvement of the Bank, including technical assistance, to be very substantial in Romania.

Discussions have since taken place between DG-Regio and the Ministry of Regional Development (MoD), which is responsible for the implementation of the Regional Operational Programme, with the MoD being positive vis-à-vis the launching of an Evaluation study. In addition, the Brasov Metropolitan Agency (BMA), one of the partners in the JESSICA for Cities project, expressed interest in the possibilities of JESSICA implementation. In September 2009, the BMA with the approval of the MoD formally requested an evaluation study on the application of JESSICA in the Brasov metropolitan area, envisaging that the implementation model could be extended at a later stage to other growth poles and metropolitan areas of Romania.

On the basis of the above request, consultants were selected in February 2010 and the evaluation study was launched following a kick-off meeting between EIB, BMA and the consultants in Brasov in March 2010. The Steering Committee of the Evaluation Study includes representatives of the BMA, national ministries, Federation of Metropolitan Areas of Romania as well as urban development stakeholders from the Brasov area. The first meeting of the Steering Committee took place in May and the Study is expected to be completed by October 2010.

6. UNITED KINGDOM

In late 2006, EIB mandated PWC UK to undertake a scoping study of the UK market in support of the JESSICA preliminary evaluation report. The study essentially concluded that both a sophisticated urban planning and financial engineering market existed in the respective jurisdictions that could allow for the relatively rapid implementation of the JESSICA initiative. Procurement and eligibility rules were flagged as issues that needed further clarification and guidance, as did clarification on how the initiative might provide "additionality" to what the UK authorities perceived as an already adequately served investment market. To some extent, the UK market would be seen as a good early "test ground" for JESSICA.

During 2007, a number of kick-offs and follow up meetings were held with all 4 UK Managing Authorities, as well as interested Regional Development Agencies (RDAs are intermediate bodies responsible for delivery of Structural Funds in England) and cities. Significant interest was generated amongst both private and public sector players and the JTF took forward discussions, specifically with the Welsh and Scottish Managing Authorities, as well as the London and Yorkshire RDAs.

Following the establishment of local JESSICA steering groups for London, the Northwest of England and Wales regions, involving the MA's and other key public sector stakeholders, terms of reference for JESSICA evaluation studies were prepared and respective tenders were launched. Evaluation studies for both London and Wales were completed in late 2008.

Early in 2007, EIB identified an interesting public/private urban regeneration partnership, operating in a number of towns within the East Midlands region. This partnership is known as the Blueprint Fund and is considered to be one of the first prototype Urban Development Funds in Europe. Public sector partners in Blueprint are the East Midlands RDA (an implementing agent of the regional Operational Programme) and English Partnerships (a specialised national urban regeneration government agency). The East Midlands RDA was interested in the potential of investing Structural Fund resources through this and other similar vehicles as UDFs, and the EIB assisted the RDA in compiling a list of detailed questions on the possible use of the Blueprint structure as a UDF model.

EIB participated at the kick-off meeting for Northern Ireland on the 10th December 2007. The meeting was attended by representatives of the geographic and financial engineering desks of DG-REGIO, as well as the Managing Authority for Northern Ireland. A JESSICA evaluation study for Northern Ireland was launched in September 2008. The draft final report has been sent to DG-Regio for final comments.

EIB JESSICA Holding Fund agreements were signed in Q4 2009 with the regions of London and the Northwest of England. Formal launch events, involving DG-Regio were held for both funds on October and November 2009, respectively.

The Scottish authorities completed a JESSICA evaluation study using their own resources. The EIB was represented in the Steering Group for this study. The study, concluded in Q2 2009, recommended the establishment of a Holding Fund with the EIB and a Memorandum of Understanding to this effect was signed at the end of September 2009.

In the Northwest of England, EIB launched a call for expressions of interest in March 2010 for two UDFs, one covering the Merseyside region and the other for the rest of the Northwest region. Each UDF will be expected to attract match funding against JESSICA Holding Fund investments of GBP 30m.

In Scotland, a GBP50m HF Funding Agreement was signed in late June. A commitment of GBP15m has also been made by the Big Lottery Fund in Scotland as complementary grant to be made available to projects attracting investment through the UDF.

In Wales, following completion of the evaluation study, the decision was taken to proceed with a single national UDF and, to this end, the procurement exercise was launched by the Welsh Assembly Government in 2009. As far as we are aware, the procurement process is still outstanding.

Following a presentation by the JESSICA Task Force at a Partnership Monitoring Committee meeting in November 2008 and various discussions thereafter, the East Midlands regional authority launched a call for expressions of interest for the establishment of a regional UDF in June 2009. EIB signed a MoU with the region to consider providing match or other funding for this in the form of a loan facility. The first UDF in the UK was finally established in November 2009 for the East Midlands region, structured as a wholly owned subsidiary of the RDA with a fund manager appointed to administer investments.

Renewed interest in JESSICA expressed from the Northeast and West Midlands regions of England has resulted in the former requesting EIB to undertake an evaluation study. In parallel with an analysis of the market failure for urban projects in the region, the study has considered as case studies a range of existing 'live' projects. Urban regeneration companies (URCs) active in the region have also been assessed as potential UDF candidates alongside a wider scoping for mature eligible projects that could ensure efficient and timely absorption of support by JESSICA UDFs. The Northeast England Regional Development Agency (One North East) is expected to identify its next steps by mid 2010, following completion of this study and in light of the UK elections in May 2010.

Following successful promotional activities in 2007, numerous technical meetings and the launching of evaluation studies in 2008 and 2009, JESSICA is now being implemented in a number of UK regions. However, the MA's remain cautious, seeking further clarity from DG-Regio with respect to interpreting the financial engineering Regulations.

The key issues of concern for the UK MA's were/are:

- how to combine eligible with ineligible investment activities;
- whether contributions of land and buildings are eligible expenditure;
- procurement of UDFs;
- the concept of integrated plans for sustainable urban development;
- conditions for the "re-use" of JESSICA investment returns and the timing thereof;
- co-financing at holding fund level;
- state aid issues.

Most of the above issues have been addressed by DG-Regio through a combination of COCOF papers on financial engineering and bilateral exchanges with the regions concerned.

The main area of focus going forward will be state aid, and possibly national eligibility rules. On state aid, EIB has been leading a working group involving interested MA's, the UK government state aid unit and interested regions. The UK government is extremely interested in efforts to address the state aid issue since most UK JESSICA implementation models will try to involve the private sector in one way or another.

7. JESSICA NETWORKING PLATFORM (JNP)

In 2007 the Task Force participated in and supported the Expert Working Group (EWG) established to monitor the development of the JESSICA initiative, following the Leipzig Informal Ministerial Conference that marked the conclusion of the German Presidency and led to the publication of the Leipzig Charter on sustainable urban development. The EWG submitted its final report in November 2008 and, partly in order to continue the work of the EWG, the Financial Engineering Unit at DG-Regio promoted, together with the EIB, the establishment of a "JESSICA Networking Platform" (JNP) to provide an information and best practice exchange forum to Managing Authorities and other parties interested in implementing JESSICA instruments. The first meeting of the JNP was hosted in Brussels in March 2009, thereby responding to MS requests for continued exchange on JESSICA-related matters.

The aim of the platform is to foster the implementation of the JESSICA initiative and in this initial phase, three specific objectives were identified:

- exchanging know-how and good practice about JESSICA;
- increasing the knowledge of financial engineering instruments in the field of urban development;
- monitoring the implementation of the initiative in Member States and regions.

While also open to other interested stakeholders, the primary audience for the JNW during its first year were Managing Authorities already implementing or intending to implement JESSICA,

Following a very favourable response in tits first year of activity, the JNP plans to focus and diversify its activities in 2010 to better address the requirements of MAs and other stakeholders and incorporate the experience gained through the progressive implementation of JESSICA instruments in a number of Member States. The third meeting of the JNP was held in Brussels in March 2010. On this occasion JNP focused on the nature and characteristics of the integrated approach to urban development and ways to incorporate JESSICA support to investment complying with such integrated concepts in concrete cases – Andalucia (Spain), Sicily (Italy), Wielkopolska (Poland). During the meeting modelling tools were presented that could facilitate the simulation and fine-tuning of JESSICA financing instruments to build suitable investment portfolios, including the possibility of combining different JESSICA financial instruments as well as grant support for this purpose.

The 4^{th} JNP meeting took place in Brussels on 8 June 2010, with an agenda aimed at stimulating the discussion and the presentation of initial findings on horizontal issues such UDF structures and governance and the development of operational guidelines for HF's and UDF's. A joint JEREMIE/JESSICA conference will then be held in Brussels on 18 and 19 November 2010.

JESSICA Holding Fund mandates (as at mid 2010)

Thus far, EIB has signed 15 JESSICA HF mandates totalling almost EUR 1.5bn.

The following table sets out the details of these, including relative stage of implementation.

EIB Holding Fund mandate			Implementation progress							Theme
Managing Authority	**Volume (EUR m)**	**HF FA**	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**Investment focus / Main area of activity**
HF - Wielkopolska (PL)	67	II/09								Revitalisation of problem areas / Business enhancement institutions in urban areas /
HF - Andalucía (ES)	86	II/09								Urban regeneration (tourism, culture / sports, housing)
HF - Lithuania (LT)	227	II/09								Energy efficiency in housing
HF - Portugal (PT)	130	III/09								Urban regeneration and energy efficiency
HF - WestPomerania (PL)	33	III/09								Urban regeneration / Urban infrastructure / Revitalisation of Szczecin
HF - London (UK)	110	IV/09								Energy efficiency in urban infrastructure
HF - NorthWest England (UK)	110	IV/09								Urban regeneration
HF - Sicily (IT)	148	IV/09								Area-based development and energy efficiency
HF - Moravia Silesia (CZ)	20	I/10								Brownfield revitalisation
HF - Campania (IT)	100	I/10								Urban regeneration
HF - Scotland (UK)	55	II/10								Urban regneration, workspace creation, energy efficiency
HF - Greece (GR)	258	III/10								Urban regeneration, solid waste manageent
HF - Silesia (PL)	60	III/10								Brownfield and city regeneration
HF - Pomerania (PL)	57	III/10								Brownfield and city regeneration, public transport, energy infrastructure, energy
HF - Bulgaria (BG)	33	III/10								Urban regeneration

Key implementation stages:	**0**	Pre-negotiation Stage / HF Agreement to be signed
	1	HF Agreement signed / Investment strategy / Investment board
	2	Call(s) for Expression of Interest in preparation
	3	Call(s) for Expression of Interest launched
	4	Call(s) for Expression of Interest closed
	5	UDF(s) selected
	6	Operational agreements in place (HF/UDF)

URBACT II

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