Making financial instruments work for cities

CSI Europe: City Sustainable Investment

Baseline Study

October 2012

European Union
European Regional Development Fund

Connecting cities
Building successes

URBACT

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STATE OF THE ART

INTRODUCTION

At the end of August 2012, around €1.8bn had been committed to the JESSICA initiative across the European Union. This covers 55 European regions and the establishment of 41 Urban Development Funds. Alongside the implementation of existing funds, efforts are still underway to create new funds within the current 2007-2013 Structural Funds Programming Period, while increasingly attention is being drawn to preparations for the next Programming Period 2014-2020.

The rapid development of the initiative at the same time as the deterioration of the economic environment across Europe has brought a number of challenges and opportunities. It is nevertheless clear that there is considerable existing and growing appetite for this type of initiative. This enthusiasm is supported by the draft regulations for the next Programming Period, which include an enhanced role for financial instruments, together with the growing need for cities to establish alternative, more sustainable mechanisms for public financing of urban development projects, especially given the ever-challenging banking environment and current financial crisis. We believe there is a strong rationale for the proposed CSI Europe URBACT Thematic Network.

CSI Europe will, through a programme of learning and exchange with partner cities with different JESSICA implementation experiences, aim to capture the lessons learnt and best practice developed so far in the implementation of the initiative. CSI Europe will focus on the extent to which the JESSICA mechanism can be more efficiently embedded and 'mainstreamed' within development policy and delivery at city level and build upon the initial ERDF investment by attracting further public and private investment. The Network will also strive to use the experience and evidence it assembles to influence the design and development of future urban-based financial instruments, especially those under development for the 2014-2020 Programming Period.

BACKGROUND TO JESSICA

Joint European Support for Sustainable Investment in City Areas (JESSICA) is an initiative developed by the European Commission in partnership with the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB). The initiative aims to support the sustainable urban development of cities through the creation of revolving investment funds.

JESSICA responds to the need to support sustainable urban development by addressing a shortage of investment available to support regeneration projects. JESSICA was launched with a view to providing new funding opportunities for Managing Authorities and Cities in the current (2007-2013) programming period by:

- ensuring long-term sustainable support to urban development through the revolving nature of the public investment in the Holding Fund and/or Urban Development Fund
- contributing financial and managerial expertise from specialist institutions such as the EIB, the CEB and other financial institutions
- leveraging additional resources for PPPs and other urban projects in the regions of the EU
- creating a better balance between risk and reward, enabling the public sector to achieve its policy objectives but potentially participate in the selected intervention at no net cost.

JESSICA can also act as a powerful catalyst for the establishment of the partnerships between Member States, regions, cities, the European Investment Bank, the Central European Bank, other banks, investors and fund managers.

The initiative has been designed in the context of EU Cohesion Policy for 2007-2013, as governed by the Structural Funds Regulations (including the General Regulation, the ERDF Regulation, the ESF Regulation, and the Implementing Regulation, collectively referred to as the SF Regulations)[1]. Preparations are already underway for the next Programming Period and as indicated in the draft regulations for that period it is anticipated that significant amounts of future cohesion funding are expected to be invested using financial instruments. Both a proposed ring-fencing minimum of 5% of ERDF contributions for urban development and with much greater focus on energy efficiency/renewable energy activity in particular, 'JESSICA-type' financial instruments will cease to be special projects within the programme and will instead be part of the mainstream funding package for the 2014-2020 Programming Period.

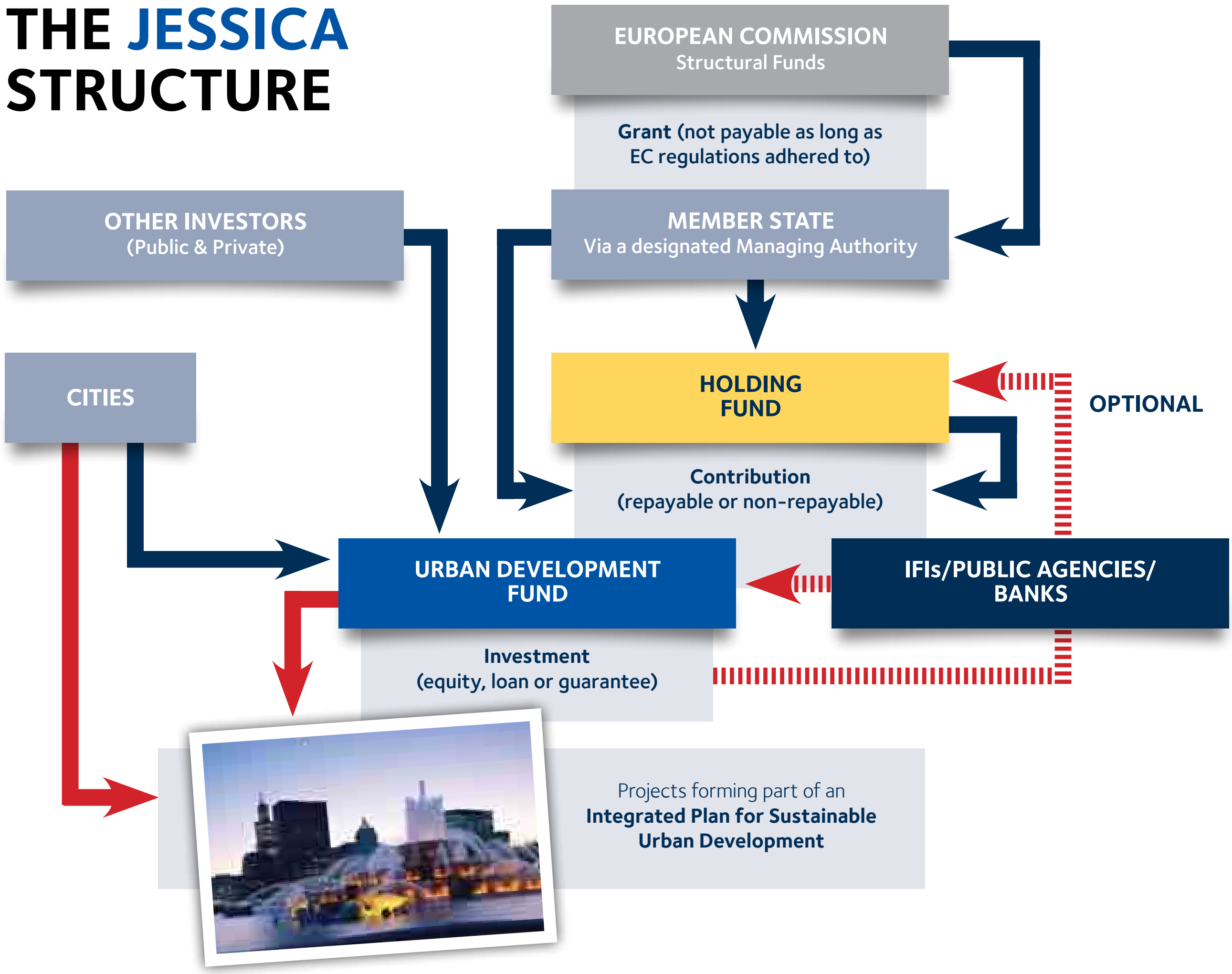
Through the Network, we will strive to demonstrate that there is potential for the initiative to become much more than an ERDF funding mechanism, seeking to identify/demonstrate models for UDF governance and ways in which they can invest. In some cases, it is already evident that the initial ERDF and match funding contribution to the UDF is really viewed as seed/catalytic financing, which represents a basis upon which a structure can be created, a track record developed, investment strategies broadened, and further public and private investment ultimately leveraged. Through this evolution, the hope is that the UDF can become a much more intrinsic element of a city's urban policy and delivery architecture, thereby delivering greater impact on the ground. However, with a greater role sometimes goes a need for greater alignment with the city's governance; in these cases, it may then cause further complications in respect of public balance sheet implications and the treatment of public sector debt. On the other hand, if a fund is to attract private sector investment in the future, the governance arrangements must be acceptable to private investors.

In terms of the resources the UDF is able to invest, a range of match funding sources and investment approaches are currently in operation. The match funding combinations include private sector co-financed UDFs, public sector co-financed UDFs, as well as hybrids of the two. The Network will look at assessing the relative merits of these respective combinations. In respect of the manner in which the UDFs are able to invest, a significant breakthrough in the state aid framework for JESSICA was achieved in mid-2011, when the first JESSICA state aid approvals were obtained in the North West of England and Andalucia regions[2]. These decisions now allow for subcommercial public investment being made alongside investors investing under the market economy principle. This not only potentially enables UDFs to support a broader range of projects, but also significantly improves their attractiveness for private sector investment, both at fund and project levels. The Network will consider the extent to which these state aid decisions could be replicated in each of the partner cities and assess the potential for it to ultimately form an EU-wide framework.

[1] Financial engineering instruments pursuant to Article 44 of Regulation (EC) No 1083/2006, hereafter referred to as the 'General Regulation' (amended by Council Regulation (EC) No 284/2009 of 7 April 2009 and further amended by Council Regulation (EC) No 539/2010 of 16 June 2010), Articles 3(2)(c), 4(1), 5(1)(d) and 6(2)(a) of Regulation (EC) No 1080/2006, hereafter referred to as the 'ERDF Regulation', Article 11(1) of Regulation (EC) No 1081/2006, hereafter referred to as the 'ESF Regulation' and Articles 43 to 46 of Regulation (EC) No 1828/2006, hereafter referred to as the 'Implementing Regulation'. Throughout this note these Regulations will also be referred to as the 'SF Regulations'. Under Article 43 of the Implementing Regulation, financial engineering instruments are 'actions which make repayable investments, or provide guarantees for repayable investments, or both'.

[2] http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3_SA_32835 and http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3_SA_32147

THE JESSICA STRUCTURE



Structure description

A range of structures have been adopted so far in JESSICA operations, in line with the parameters set out in the SF Regulations, and outlined in the diagram on the previous page. Most structures involve three principal tiers:

HOLDING FUND

- The Holding Fund (HF) can be managed by EIB and is responsible for developing the overall investment strategy in line with the parameters of the relevant Operational Programme (OP). The HF, via a funding agreement with the Managing Authority, secures the necessary funding and an Investment Board/Committee is usually constituted to govern/oversee the implementation by the fund manager. Typical Investment Board/Committee membership includes representatives of the Managing Authority and other interested public sector stakeholders, and also often includes independent sector specialists/experts.
- In consultation with the Investment Board/Committee, the HF manager procures UDF managers through an open and competitive process. The HF manager carries out due diligence on the UDF manager applicants and their business plans, and subsequently contracts with the UDF manager through an Operational Agreement.
- Ultimately, the HF invests funds in the UDF(s) and then monitors its performance and the rate and quality of project investment to ensure delivery of the UDF's investment strategy.
- The HF is an optional, but beneficial, element of the structure.

URBAN DEVELOPMENT FUND (UDF)

- Public and/or private sector managers, including financial institutions, apply to the HF (or Managing Authority where no HF is used) to act as UDF managers. Successful UDF managers are required to develop their own investment strategy in response to the specific theme, sector or geography for which they have been allocated funding. They then develop the project pipeline that is, or at least partly, ERDF eligible, deliverable within the timeframe of the relevant OP and capable of repaying the UDF investment.
- The UDF usually receives investment from the HF in tranches and the UDF carries out detailed due diligence on potential projects that also include credit risk assessments/ scoring before submitting the project for approval through the UDF's own governance structure. The HF manager usually does not approve UDF project proposals, but rather acts as a 'check' that projects appear eligible for funding and in line with the UDF's investment strategy.

  The UDF is responsible for treasury management functions in relation to the funds temporarily held. The UDF then invests in approved projects by way of On-Lending Agreements. The UDF aims to maximise, or at least balance, both socioeconomic benefit and financial return of the projects.
- The UDF normally benefits from private sector fund management skills and expertise. In most cases the fund managers are required to be financially regulated (or at least have advisers that are such).

UDF governance structures can also include public sector representation, with a range of governance options that range from direct control to that of an advisory capacity only. The relationship between UDFs and the public sector (national, regional and/or local) and related issues will be a key theme for the Implementation Phase of this project.

PROJECTS

- Projects apply for funds from UDFs, often on a first come, first served basis and sometimes through open calls. Project promoters are then contracted to deliver these projects and ensure outputs are met. Unlike grant arrangements, projects also need to repay funds to the UDF, which are then either reinvested by the UDF in further projects or returned to the HF for reinvestment elsewhere.

Of the JESSICA funds developed to date, EIB has been appointed as HF manager in 95% of operations; to our knowledge seven Managing Authorities or cities have decided to not use a HF from their structure and move straight to investment in a UDF directly.

Feasibility phase

The diagram below illustrates the various implementation phases of a JESSICA fund. Once initially developed, fund ideas and concepts are tested by way of an evaluation/feasibility study. These studies assess the market failures and gaps in the chosen geography and sector, together with policy fit, value for money and potential impact of the proposed fund. Thereafter and subject to a positive study conclusion, the focus shifts to the establishment of the HF (if desired) with the supporting governance and overarching investment strategy and the procurement, selection and due diligence of UDF. Upon contracting with the UDF, the final phase of implementation commences: project investment.

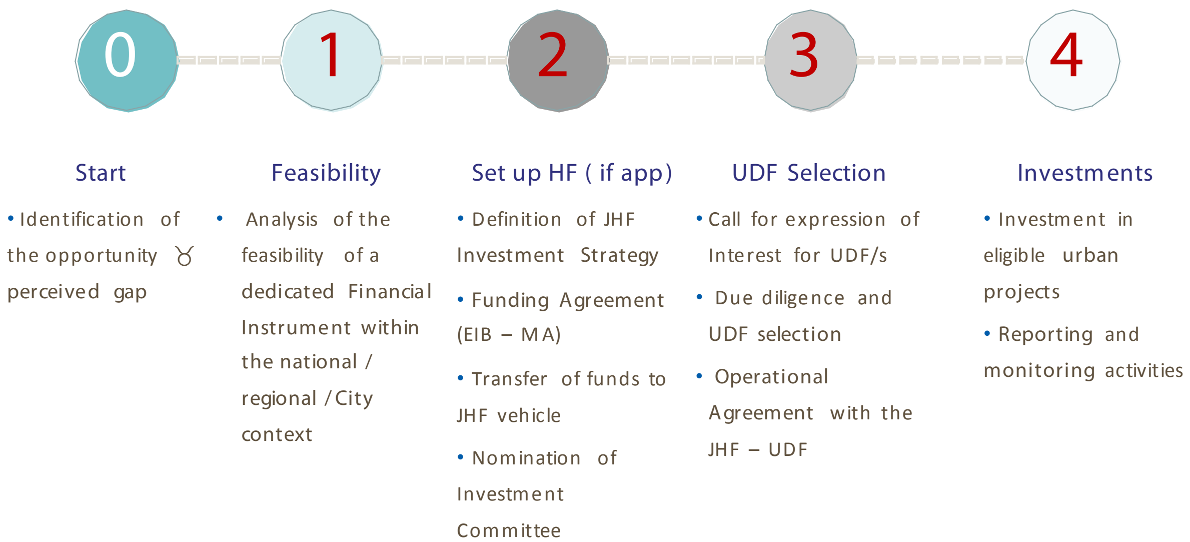
Setting up and implementation

Revised guidance was published on 8 February 2011 to clarify some issues in relation to the setting up and implementation of financial instruments[4]. Some of the issues addressed within the guidance include: the procedure to establish and structure the financial instrument; financial contributions including co-financing at both fund and project level; management costs and fees; eligible investments; guarantees; and the reinvestment of funds. The guidance reflects some of the early lessons learned by promoters of JESSICA operations and EIB, and helps address a number of questions/concerns around the establishment of a JESSICA fund.

The guidance confirms that in the current programming period, investments can be made by financial engineering instruments in the form of equity, loans, guarantees or other forms of repayable investments provided to enterprises, public private partnerships, urban development projects; or loans, guarantees for repayable investments, or equivalent instruments provided to legal or natural persons carrying out specific investment activities in energy efficiency or renewable energy in buildings (which may include housing). Urban development projects must also be included in integrated plans for sustainable urban development. The guidance does not include a definition of/requirements for an integrated plan for sustainable urban development and this is left to the Managing Authorities of the relevant Member States to determine. However, it should reflect the criteria set out in the Community Strategic Guidelines on Cohesion 2007-2013[5].

The guidance also provides greater clarity on the reuse of resources generated by investments undertaken by the funds. The guidance states that funds should be "reused for the benefit or urban development projects, small and medium-sized enterprises or for energy efficiency and use of renewable energy in buildings, including in existing housing". The guidance also specifies that the Commission considers it good practice that resources returned from investments are reused in the region(s) covered by the Operational Programme[6].

[3]



[3] European Investment Bank - Presentation slides - 'EIB and JESSICA' June 2012

[4] Revised Guidance Note on Financial Engineering Instruments under Article 44 of Council Regulation (EC) No 1083/2006

[5] Article 8 of the ERDF Regulation and Section 2.1 of the Annex to Council Decision 2006/702/EC of 6 October 2006 on Community strategic guidelines on cohesion, OJ L 291, 21.10.2006. According to the Strategic Guidelines, the following aspects should be included in an integrated urban development plan: a definition of the target urban areas and the geographic focus of projects, an analysis of urban socioeconomic and environmental needs, the demand for assets/services and a coherent development plan (a multipurpose, multisector approach, including the elements of a land-use plan).

[6] Revised Guidance Note on Financial Engineering Instruments under Article 44 of Council Regulation (EC) No 1083/2006

State aid

It is a requirement that all investments made by financial instruments must comply with state aid rules. A number of different approaches have been adopted by funds, including reliance on the General Block Exemption Regulation [FN] Art 13 (Regional Aid) and Art 28 (Aid in the Form of Risk Capital) and/or a number of specific state aid notifications/decisions.

The Northwest Urban Investment Fund (JESSICA) state aid decision[7] issued on 13 July 2011 approved a number of measures to support sustainable and integrated urban development in the north west region of England. The interventions that may be made under the measure include: subcommercial loans, including loans at zero interest rate, made in conjunction with grant, where necessary to secure the viability of schemes; equity investments where the UDF takes a first loss position or allows a private sector investor a priority return; and equity investments offering preferential returns to private investors.

In addition to identifying the interventions that may be made under the measure, the decision notice provides a detailed methodology for appraising schemes, identifying what is a referred to as a "fair rate of return" for private investors and assessing the viability of schemes in order to justify market failure and the granting of aid.

The North West region of England state aid notification has been followed by similar measures notified by other Member States

Types of projects

As previously indicated, the regulatory guidance in respect of the types of projects that are eligible for JESSICA at EU level is relatively broad, encompassing urban development, energy efficiency and renewable energy activity, as long as projects form part of integrated plans for sustainable urban development. At Member State/regional level, the exact nature of the JESSICA project activity is driven by the strategic focus of the relevant Operational Programme and the specific requirements (activity, expenditure and outputs) of the Priority Axis of that OP from which the JESSICA resources have been contributed. The activity of the UDF can then be further refined through the drafting of an appropriate investment strategy.

The majority of ERDF eligibility constraints only apply to the initial first round of investments made by the UDF; thereafter the UDF is able to develop with its partners as appropriate a broader strategy, perhaps including activity that would have previously fallen outside the ERDF eligibility parameters, but was nevertheless an economic development priority for the local area that can be categorised within the remaining ERDF eligibility constraints of investment in urban development, energy-efficiency or SMEs[8]. In all rounds of investment, the appropriate breadth of the activity focus permitted under the investment strategy is critical in ensuring that a sufficiently flexible approach can be taken to the selection of projects for investment, while also ensuring the strategy is also well defined and easily understood and hopefully supported by other investors.

[7] http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3_SA_32835

[8] Revised Guidance Note on Financial Engineering Instruments under Article 44 of Council Regulation (EC) No 1083/2006

IMPLEMENTATION STATUS

Until 2012, much of the focus of the implementation of the initiative has been on assessing the feasibility of establishing JESSICA funds in certain cities and regions, and subsequent establishment of the HF (where relevant) and UDFs, including defining their investment strategies and appropriate supporting governance structures. This has involved extensive due diligence of potential UDF candidates, testing the robustness of their project selection, appraisal methodologies and decision-making structures, and ensuring that the UDFs have identified sufficient and appropriate project pipelines.

Considerable time has also been spent in negotiating financing agreements with the UDFs. These agreements, often called 'operational agreements', are a critical control document and provide the terms and conditions of the HF (or MA) investment in each UDF. The operational agreements ensure that the UDFs have appropriate investment milestones, are incentivised by their fee structure and take the required responsibility for ensuring ERDF compliance of their project investments, as well as providing a range of audit and monitoring rights and responsibilities to the relevant authorities.

A significant amount of progress has been achieved since the initiative commenced, with most Member States having now engaged with the initiative to some degree, and nine member states establishing HFs and a further seven investing directly in UDFs. The table below[9] sets out the current status in respect of the HFs under EIB management.

EIB Holding Fund mandate			Implementation progress							Theme
Managing Authority	Volume (EURm)	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 - Andalucia (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 / Housing
HF - London (UK)	113	IV/09								Waste / Energy efficiency in urban infrastructure
HF - NorthWest England (UK)	114	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 / development of tourism / improvement of public service infrastructure
HF - Campania (IT)	100	I/10								Urban regeneration
HF - Scotland (UK)	56	II/10								Urban regneration, workspace creation, energy efficiency
HF - Greece (GR)	258	III/10								Urban regeneration, solid waste management
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 efficiency
HF - Bulgaria (BG)	33	III/10								Urban regeneration and energy
HF - FIDAE (ES)	128	III/11								Energy efficiency / Renewable Energy
HF - Sardegna (IT)	70	III/11								Energy efficiency / Urban infrastructure
HF - Masovia (PL)	40	III/11								Urban regeneration, Cluster development, Energy efficiency, Renewable energy
Total signed	1,740									
HF - Energy Efficiency/ Renewable Energy (IT)	70	I/12								Energy efficiency / Renewable Energy
Total expected 2012	70									

0 = Pre-negotiation/HF to be signed
1 = HF Agreement signed, Investment Strategy/Investment Board established
2 = Calls for Expression of Interest in preparation
3 = Calls for Expression of Interest launched
4 = Calls for Expression of Interest closed
5 = UDF selected
6 = Operational Agreements in place (HF/UDF)

Stage Achieved
Implementation of the stage imminent
Signature expected in coming months

[9] EIB, JESSICA and Investment Funds Division, Management Information, 2012.

Implementation progress by Member State

The following section summarises implementation status and progress across each Member State. As is clear from these summaries, the bulk of progress achieved so far has been in relation to the set up of the fund structures, with project investment only just really commencing in earnest during 2012.

AUSTRIA

The Operational Programmes of the Länder Vienna, Styria and Upper Austria all contain references to urban development and the potential application of JESSICA. However, there is understood to be a limited amount of structural funding available, which is dedicated to urban development. Apart from a potential small-scale pilot, it is not expected that Austrian MAs will implement JESSICA in the current programming period. However, the preparation of the National Strategic Reference Framework is on-going and, in this 'STRAT.AT 2020' process, national and regional Managing Authorities, city representatives and Austrian associations of towns and municipalities closely investigate how financial instruments might be employed in the 2014–2020 programming period.

BELGIUM

Three evaluation studies have been undertaken in Belgium to date, in partnership with EIB, but no JESSICA operations have yet been established. In February 2009, the Walloon government worked with EIB to carry out an evaluation study which, on the basis of a number of case studies, proposed three possible UDF types – an area-based UDF dedicated to 'eco-quartiers', a UDF targeting large-scale regeneration project and a multi-sector integrated regional UDF. Despite this interest and positive study conclusions, JESSICA has not been progressed in Belgium in the current programming period.

BULGARIA

A JESSICA Evaluation Study for Bulgaria was concluded in 2009 and subsequently the EUR 33m JESSICA HF for Bulgaria was created within the EIB in July 2010. Two UDFs have been established in Bulgaria: one for the capital city Sofia (allocating approximately 40% of the available funds) and another for the six major Bulgarian cities, namely Bourgas, Pleven, Plovdiv, Rousse, Stara Zagora and Varna (allocating approximately 60% of the available funds).

CYPRUS

An evaluation study has been completed with EIB support and while the preliminary indications were that a relatively small JESSICA Holding Fund would be established, it is believed that the remaining ERDF resources were to be allocated to alternative projects considered to be a higher priority. JESSICA is not therefore understood to be taken forward during the current programming period.

CZECH REPUBLIC

In March 2010, the Ministry of Regional Development launched a nationwide study analysing various legal and administrative issues related to the implementation of JESSICA; specific studies were also completed in respect of certain regions (ie. Moravia-Silesia, South-East, North-East and Central Moravia Cohesions Regions).

An Evaluation Study for Moravia-Silesia was completed in July 2009. This resulted in the establishment of a Holding Fund, managed by EIB in February 2010 with an investment of CZK480m (€19.8m) to be made available for brownfield regeneration, tourism and public services infrastructure projects. Two Urban Development Funds - Contera UDF MS s.r.o. and Ceskomoravská Zárucní a Rozvojová Banka a.s have now been selected and contracted and are shortly due to commence project investment.

DENMARK

Denmark is understood to have so far ruled out using JESSICA at the current time; this is possibly due to the country's extremely limited allocation of ERDF. The limited resources do not facilitate reaching the necessary critical mass to work on the setting up of a meaningful UDF.

ESTONIA

In 2008, the National MAs, KfW and CEB started setting up a JESSICA financial engineering instrument, managed by KredEx, to finance a programme of energy efficiency investments in the country's apartment block housing. The KredEx HF was launched in 2009 and Swedbank and SEB were subsequently selected as UDFs. Project investment is now well underway.

FINLAND

A study was launched in August 2009 to assess the feasibility of implementing JESSICA in Western Finland. The evaluation study was finalised in December 2009 and concluded that ERDF resources currently available under the Western Finland OP (2007–2013) would not allow for the establishment of a cost-efficient fund structure or the leveraging of additional public or private sector resources. However, the study indicated further JESSICA potential under the Eastern Finland OP and it is hoped that this may be further explored in preparation for the next programming period.

FRANCE

A countrywide evaluation was completed in 2008; this specified the regions where OPs may be most suitable for investment in urban regeneration. These areas included Ile-de-France, Aquitaine, Nord-Pas de Calais and Rhône-Alpes. Specific studies have then subsequently been completed in certain regions.

In fact, in 2010 the Nord Pas-de-Calais MA, supported by the Regional Council, launched a study for the implementation of JESSICA. Two studies for Ile-de-France and Lorraine commenced in 2012 supported by EIB, and these studies will be based on the NPDC study conclusions, but will be focused on the next Programming Period.

GERMANY

Since inception of the JESSICA initiative in 2007, the majority of the German Länder, including Brandenburg, Saxony, Berlin, Hamburg, North-Rhine Westphalia (NRW), Rhineland Palatinate, Saarland, Thuringia and Hessen, have demonstrated interest in JESSICA and considered the possibility of developing dedicated financial instruments for urban development. Most MAs have been considering implementing JESSICA through a UDF as a separate block of finance within their respective regional promotional banks.

In respect of Brandenburg, the UDF was established in 2009; as of December 2011, the UDF had signed loans for three projects. In Thüringen, the launch of a UDF of €20m was announced by the local Ministry of Building, Regional Development and Transport in August 2011. Local Managing Authorities are expected to govern the UDF, in close co-operation with Thüringer Aufbaubank, which would act as financial intermediary. The fund would mainly focus on financing remediation of brownfield sites in urban areas.

In Q4 2011, the Managing Authority in Hessen, together with the regional promotional bank Wirtschafts- und Infrastrukturbank Hessen (WIBank), launched a JESSICA-type UDF. The fund mainly provides subsidised loans for local communes and has an initial capacity of €10m. The fund is complementary to existing measures, such as Städtebauförderung and other loan products of WIBank, and is, among others, available for projects in urban and social infrastructure, transport infrastructure, tourism and energy efficiency measures.

The state of Saxony has also demonstrated significant interest in the JESSICA initiative. Following amendments in legislation and agreements between MA and intermediary bodies, the launch of a UDF in the near future is being discussed between the Ministry of Economy, Technology and Transport (SMWA), the promotional bank (SAB) and the city of Leipzig. A pilot project for the UDF has been identified, for which the financing mix is being finalised.

It is expected that Financial Instruments will play a greater role in the 2014–2020 period, taking into account the enlarged flexibility under the new regulatory framework, lessons learnt by promotional banks and a closer definition of a market niche for FIs as complements to the wide range of existing promotional instruments.

GREECE

Following the signature of an MoU and the compilation of three JESSICA evaluation studies (one general and two sector-focused), the Funding Agreement between EIB and the Hellenic Republic was signed in July 2010. The €258m contribution comes under five ROPs and the OP Environment – Sustainable Development (13 priority axes in total, covering 12 out of 13 Greek regions).

In March 2011, EIB published the Call for EoI for the selection of UDFs. EIB received offers from nine applicants covering all lots of the Call for EoI. Operational Agreements with the successful UDF bidders were signed between November 2011 and February 2012; UDFs subsequently published project calls and project applications are beginning to be submitted.

HUNGARY

A JESSICA evaluation study was finalised and published in Q2 2012. The study was focused on the identification of potential projects in three OPs: North Hungary, North Great Plain and Transport. It is understood the Managing Authority is currently assessing its next steps with respect to potential implementation of JESSICA instrument.

IRELAND

While we understand that Ireland did not show much interest in progressing JESSICA during the current programming period, Ireland has very recently expressed an interest in undertaking an evaluation study to assess the potential for a JESSICA-type instrument in preparation for the 2014–2020 programming period.

ITALY

Sicily – In July 2009, Regione Siciliana requested a JESSICA Evaluation Study, which was launched in September 2009. Following the preliminary indications from the study, in December 2009 the MA signed a HF agreement worth €148m with the EIB to support investment under the sustainable urban development Priority Axes of Sicily's OP. In line with the study results indicated above, two types of UDFs were considered and have been subsequently established, one dedicated to 'area-based' urban development and regeneration themes ('multi-sector UDF') and the other that would use available OP resources for energy efficiency and renewable energy production ('EE/RE UDF'). The two UDFs are now operational and the first projects are expected to be financed by the end of the year. While the initial amount of funds invested is approximately €150m (of which some €100m for the multi-sector investments), the two UDF managers have committed to invest additional own resources enabling the leverage effect of the JESSICA programme.

Campania – The Regione Campania assigned the EIB a HF mandate of €100m in March 2010. After slow progress towards implementation of the HF activities due to the change in the governing majority following the regional elections, the initiative is now accelerating again with the launch, in July 2012, of the Call for Expression of interest for the selection of the UDFs. The limited investment horizon left required a very streamlined selection process that will be concluded by mid-September with the selection of at least two UDFs, which are expected to be fully operational by the end of the year. The resources will be dedicated mainly to investment in the urban regeneration space with focus on environmental recovery, social and economic regeneration (including water fronts), renewal, regeneration and reuse of underused urban assets to create urban parks, improvement in local mobility systems, aggregation of shops, handicraft labs, expo areas and social aggregation areas, and energy savings. The Regione Campania has already indentified a number of projects potentially eligible from the initiatives PIU Europa and Altre Citta. The economic viability of such projects and the potential financing structure will be further assessed by the UDFs, once operational.

Sardinia – The preliminary findings of the Evaluation study, completed in July 2011, showed a good potential for the development of the initiative and the Regione Sardegna decided to sign a HF Funding Agreement with EIB worth €70m. The HF Sardinia was established on 20 July 2011. The HF resources came from: Priority Axis V 'Urban development' and Priority Axis III 'Energy', which focused on projects within the programme 'Smart City Sardinia CO2.0', which was aimed at enhancing energy efficiency and the adoption of renewable energy sources within the region. There will be a UDF dedicated to area-based renewal and regeneration of cities, and one to an UDF focusing on energy-efficiency and renewable projects. Legal negotiations between EIB and the UDFs have been finalised and the signature of the first Operational Agreement took place in July 2012. As for the Sicilian case, the first investments are expected for the end of 2012 and the two UDF managers have committed to invest additional own resources to enable the leverage effect of the JESSICA programme.

Marche – In December 2010, the MA requested a study focused on the potential of a small pilot UDF. The amount of funds to be made available under the procedure is approximately €5m, but the region has also added €4.5m from the regional social housing funds, thus enlarging the size of the initiative to some €10.0m. The Regione is managing the initiative directly and is gathering expression of interest from local municipalities in connection with projects to be financed under the programme. First investments are expected for the first half of 2013.

Multi-regional Energy Fund (FEOC) – The creation of a Multi-regional Fund targeting investment in the energy efficiency space in the convergence region of Italy has been discussed by the EIB and the Italian Government. Due to the spending review actions currently adopted, and reorganisation of the expenditure of certain structural funds budget, the development of the initiative is currently on hold.

LATVIA

There is a substantial demand for capital investment to make multi-apartment housing stock in Latvia fully energy-efficient that may not be financed by the public sector and EU structural grant funding alone. An evaluation study into the feasibility of a JESSICA fund was completed by EIB and published in May 2012 and the next steps are currently being considered.

LITHUANIA

Following positive results of evaluation studies, the Lithuanian Government decided to implement JESSICA by setting up a JESSICA HF within the EIB with a view to supporting energy efficiency projects in multi-apartment buildings. The total amount of commitment to the fund was €227m, consisting of €127m of SF and €100m of national funding. Four UDFs have been appointed and contracted so far to manage the investment of part of the funds.

There are a number of renovation projects at different stages of implementation under the first UDF. In Q1 2012, EIB launched a third Call for EoI (€20m) for funding higher education student dormitories.

LUXEMBOURG

The Government of Luxembourg formally confirmed its intention to investigate possibilities for the establishment of a pilot UDF for NORDSTAD with EIB support and in June 2008 submitted a request for a JESSICA Evaluation Study, signed by the Minister of Interior and Urban Areas, the Minister of Economy and the Minister of Finance. While the first findings of the study confirmed JESSICA potential for Luxembourg, a variety of challenges were identified. The final report of the Evaluation Study was presented to the Ministries in April 2010 and then published on the EIB website.

MALTA

The Maltese authorities have so far not expressed an interest in using JESSICA funds.

NETHERLANDS

Different options for starting JESSICA in The Netherlands have been discussed between EIB, the West Netherlands Region and the Programme Authorities of The Hague and Rotterdam. In November 2011, a technical assistance agreement was signed between the EIB

and the MA West Netherlands region, to assist in the procurement of UDFs for the two cities.

POLAND

Following positive results of the evaluation study, the Wielkopolska Region set up a JESSICA HF with EIB in April 2009 (the first Funding Agreement in the EU for the establishment of a JESSICA HF with EIB). The Region contributed the equivalent of around €66m (PLN 313m) to the JESSICA HF and Bank Gospodarstwa Krajowego (BGK) was selected as the UDF. In October 2010, BGK launched a call for projects and by the end of 2010 received applications from potential project promoters accounting for more than half of the available allocation. Seven Investment Agreements have been signed up to date for approximately 40% of the amount disbursed to the UDF.

The Westpomerania Region also took a decision to set up a JESSICA HF with EIB in July 2009 with a contribution of just over €33m (PLN 140m). Two UDF managers were selected for the Westpomerania Region. Bank Ochrony Srodowiska (BOS), in cooperation with Koszalinska Agency for Regional Development (Koszalinska Agencja Rozwoju Regionalnego), was selected to manage approximately PLN 63m for investments in cities located outside Szczecin Metropolitan Area. Bank Zachodni WBK (BZ WBK), in co-operation with Westpomeranian Agency for Regional Development (Zachodniopomorska Agencja Rozwoju Regionalnego), was selected to manage approximately PLN 77m for investments within Szczecin Metropolitan Area. Following the launch of the calls for projects both UDFs focused on the promotion of the JESSICA initiative among potential project promoters and proceeded with evaluation of submitted project loan applications. First investments are expected in Q4 2012.

In July 2010, a third JESSICA HF in Poland was created with EIB for the Silesia Region, totalling €60m (PLN 250m). The JESSICA HF is expected to invest mainly in urban regeneration projects arising from the revitalisation of post-military and post-industrial areas in both small and large cities and the regeneration of large elements of degraded urban infrastructure. BOS, in co-operation with Center for Revitalization Projects (Centrum Projektów Rewitalizacji) was selected as the UDF responsible for management of the total allocation in the Region. Following the launch of the call for projects at the end of 2011 two Investment Agreements have been signed up to date and further investments are expected in Q4 2012.

A fourth JESSICA HF was created in Pomerania also in July 2010. The Pomerania Region's contribution to the JESSICA HF was €56.8m (PLN 236m). In the Pomerania Region investments are expected to be more directed towards transport system improvements, energy-efficiency, development of post-military and post-industrial areas as well as area-based urban regeneration. Two UDFs were selected for the Region, namely BGK, in co-operation with Pomerania Development Agency (Agencja Rozwoju Pomorza), to manage investments in four poviat cities of the Pomorskie Region and BOS, in co-operation with AMT Partner, to manage investments in the remaining cities of the Region. Following the launch of the calls for projects by both UDFs at the end of 2011 two Investment Agreements have been signed up to date and further investments into projects are expected to take place before year-end.

An evaluation study for the Mazovia Region was completed in June 2011. Following its positive results the Mazovia Region decided to create a JESSICA HF with EIB in July 2011 and contributed €40m (PLN 160m) for this purpose. The JESSICA investment portfolio in Mazovia includes urban revitalisation projects, energy-efficiency and renewable energy projects as well as cluster development projects. As a result of the tender procedure BGK, in co-operation with Mazovia Development Agency (Agencja Rozwoju Mazowsza) and Mazovia Energy Agency (Mazowiecka Agencja Energetyczna) was selected as the UDF for the Region and the Operational Agreement was signed at the end of August 2012. It is expected that the call for projects will be launched within the coming weeks.

PORTUGAL

The signature of the Funding Agreement for creating the JESSICA HF Portugal ('JHFP') took place on 20 July 2009 in Lisbon for a total amount of €130m. The JHFP is composed of €100m of ERDF resources and €30m of national cofinancing.

The Holding Fund was installed in September 2010. Three UDFs were selected: Banco BPI, the consortium between Caixa-Geral de Depósitos and IHRU, and Turismo de Portugal. The UDF managers co-financed the fund with an additional €204m. First project investments are now underway.

There is the possibility of extending the mandate for an additional amount to finance energy efficiency projects.

ROMANIA

It is understood that the Ministries in Romania have not agreed to explore implementing revolving funds through JESSICA. One of the reasons for this is that the ERDF resources are already earmarked and according to the authorities should be fully absorbed by the end of the programming period.

SLOVAKIA

The JESSICA Evaluation Study was published on the EIB website in April 2011. In June 2011, the Slovak Government approved a pilot approach to support housing through EU Structural Funds, focusing on the improvement of energy efficiency in the existing urban housing stock (to be implemented via JESSICA) as well as building of rental flats for marginalised groups. Consequently, Slovak Managing Authorities are structuring the JESSICA implementation mechanism, which also includes legislative changes on the national level.

SLOVENIA

It is expected that the JESSICA Evaluation Study will be finalised in Q3/Q4 2012 and that subsequently the decision on the potential implementation of JESSICA instrument in Slovenia and its implementation structure will be taken by the Managing Authority.

SPAIN

A national HF was established as a separate block of finance managed by the EIB and is aimed at investment in UDFs whose main objective is to provide financing in the form of loans, equity or other equivalent financial instruments to Urban Projects improving the energy efficiency and/or using renewable energy (EE/RE) in the CC.AAs. The Funding Agreement was signed in Madrid on 1 July 2011 for an amount of €127.6m.

Andalusia – on 8 May 2009, the first Spanish JESSICA HF was signed in Seville between the EIB and the Junta de Andalucía for an amount of €85.7m. Two UDFs have been selected and contracted – BBVA and Ahorro Corporación. The first projects are expected to be supported in Q3 2012. Andalusia have also worked with EIB and have secured state aid approval for a JESSICA state aid notification in early 2012.

Galicia – A JESSICA Evaluation Study was launched in October 2009 and following positive conclusions the intention was to create a HF to focus on energy-efficiency and use of renewable energy Urban Projects. While a Holding Fund Funding Agreement and Investment Strategy were prepared, the signature of the Funding Agreement was postponed.

Castilla – La Mancha – the Junta initially expressed its intention to allocate €50m to create a HF. An Evaluation Study was finalised at the end of March 2011, but there has been no further progress.

SWEDEN

A JESSICA evaluation study was completed in December 2008. Despite the positive findings of the study, and interest from the cities of Stockholm, Malmo and Gothenburg, JESSICA has not yet been taken forward in Sweden.

UNITED KINGDOM

Following the completion of evaluation studies, three Holding Funds have been created in London, the North West and Scotland during 2009 and 2010. Urban Developments have also been directly created in Wales and the East Midlands during this period. In London, two UDFs have been established – Foresight has been allocated £36m on investment and is targeting waste and waste recycling, and LEEF (London Energy Efficiency Fund) has been allocated £50m to invest in energy-efficiency measures. Both UDFs are now operational and the first investments are due during 2012.

In the North West, EIB launched a Call for EoI in March 2010 for two UDFs, one covering the Merseyside region and the other for the rest of the North West region. Chrysalis was selected for Merseyside, receiving £30m of investment from the Holding Fund, and Evergreen was established for the rest of the north west, also receiving £30m.

The Scottish authorities completed a JESSICA evaluation study using their own resources. The study, concluded in Q2 2009, recommended the establishment of a JESSICA HF with the EIB. A £50m EIB HF agreement was signed in late June 2010 for the Lowlands and Uplands region of Scotland. A UDF agreement was signed with the Amber Green consortium in late 2011 and the UDF (called 'SPRUCE') is now operational.

It is understood that South Yorkshire and the West Midlands are also hoping to implement JESSICA funds during the current programming period. Both areas have recently launched Calls for EoI and foresee a direct investment in a UDF.

Northern Ireland, and especially Belfast, have expressed an interest in gaining a greater understanding of the mechanism in preparation for the 2014–2020 programme. There are insufficient available resources to implement a fund during the current programme.

In Wales, following completion of the evaluation study by EIB, the decision was taken to proceed with a single national UDF, with no HF, and to this end a procurement exercise was launched by the Welsh Assembly Government in Q3 2009. During Q3 2010, the Welsh Assembly Government announced the conclusion of a legal agreement with Amber Infrastructure to act as UDF manager. It is understood that no projects have yet been invested in.

HORIZONTAL DEVELOPMENTS

In addition to the implementation of Holding Funds and Urban Development Funds, a number of horizontal activities have also been developed in recognition of the new and innovative nature of the initiative. A Horizontal Studies Steering Group has been formed attended by representatives from the European Commission and the European Investment Bank. This Steering Group has overseen the production of a number of Horizontal Studies, these include the UDF Handbook, a study on the implementation of energy-focused UDFs, Methodologies for Social and Economic Performance, Housing in JESSICA operations, JESSICA for smart and sustainable cities, and a Marketing, Communication and Knowledge Dissemination Strategies report. These studies are available for all stakeholders involved in the implementation of JESSICA operations and are available on the EIB website www.eib.org/products/jessica/studies/horizontal.htm

CURRENT NETWORKING STRUCTURES

The 7th JESSICA Networking Platform (JNP) took place in June 2012 and concentrated on presenting current implementation issues and project developments. JNP meets on an annual basis in Brussels and is attended by the European Commission, the European Investment Bank, Managing Authorities, cities, Urban Development Funds and advisors. The JNP format usually comprises presentations from stakeholders on current implementation progress, issues experienced, and relevant thematic topics such as state aid. CSI Europe was represented at the event in June 2012 and the Network was highlighted in a presentation on the Evergreen UDF in the North West region of England.

In addition to the Networking Platform there are also two Networking Platform Working Groups, one of which has focused on lessons learnt in the implementation of funds to date and one which has provided a forum to discuss and share best practice in terms of energy efficiency activity in housing projects. CSI has reviewed the recommendations of both working groups and there is a degree of alignment between some of the issues highlighted. CSI will hopefully be able to build upon some of the work undertaken through its proposed thematic approach to the implementation phase.

Beyond these formats the main opportunities for knowledge exchange and information sharing are provided through the EIB's role as Holding Fund Manager for the majority of Holding Funds established.

FINANCIAL INSTRUMENTS IN COHESION POLICY 2014-2020

The role of financial instruments in the next CP programme was the subject of a presentation at the June 2012 JESSICA Networking Platform. The draft Common Provisions Regulation [FN] published in June 2012 sets out at Articles 32–40 regulations that will govern the use of financial instruments across all thematic objectives and priorities of Member States' Operational Programmes. Financial instruments are envisaged to be a much more prominent feature of the Programme, acknowledging that there is a need to use scarce public resources to lever private sector investment to much greater effect. The draft proposals include the incentive that co-financing requirements will be reduced by 10% where a MA decides to implement an entire priority through a financial instrument.

Under the draft proposals, Managing Authorities will, subject to an ex ante assessment, be able to opt to establish a number of off-the-shelf instruments or use existing or newly created tailored instruments for the new programme. One relatively significant positive development is that the draft CPR provides for co-financing to be provided either at fund or project level. Eligible expenditure under the financial instrument will include:

- Payments to final recipients
- Resources committed to guarantees, covering a multiple of underlying new loans or other risk-bearing instruments for new investments (ex ante risk assessment)
- Reimbursement of management costs or fees
- Capitalised interest rate subsidies or guarantee fee subsidies to be paid for a maximum period of ten years after the eligibility period, in relation to loans/guarantees provided/committed within the eligibility period (escrow account)
- In the case of equity-based instruments and micro-credit, capitalised management costs or fees to be paid for a maximum period of seven years after the eligibility period (escrow account).

Returns from investments may be used for further investments in line with the relevant operational programme through the same or other financial instruments, preferential remuneration of investors providing co-investment, if justified by the ex ante assessment, and management costs/fees.

CONCLUSION

This report demonstrates that significant progress has been made to establish financial instruments under the JESSICA mechanism and sets out the progress achieved to date in the development and implementation of the initiative at EU level. A significant level of knowledge and experience has been gathered to date by partners in developing JESSICA funds, although to date the vast majority of the work has been in relation to the establishment of the financial instruments through Holding Funds and UDFs. This rich experience will provide an excellent basis upon which CSI Europe can share best practice and lessons learnt to support cities in more effectively deploying these types of funds in the future.

The next challenge for the UDFs is to deliver investment of the funds into eligible projects, developing experience and best practice in relation to the identification and appraisal of projects, pricing of loans, state aid compliance and monitoring, the delivery of outputs and financial performance of the investments.

GLOSSARY

CEB Council of Europe Development Bank

COCOF Committee for the Co-ordination of the Funds

DG COMP European Commission's Directorate General for Competition

DG REGIO European Commission's Directorate General for Regional Policy

EBRD European Bank for Reconstruction and Development

EC European Commission

EIB European Investment Bank

EoI Expression of Interest

ERDF European Regional Development Fund

EU European Union

HF JESSICA Holding Fund

IB Investment Board

IPSUD Integrated Plan for Sustainable Urban Development

JESSICA Joint European Support for Sustainable Investment in City Areas

MA Managing Authority

MoU Memorandum of Understanding

MS Member State

NSRF National Strategic Reference Framework

OA Operational Agreement

OP Operational Programme

PPP Public-private partnership

ROP Regional Operational Programme

SF Structural Funds of the European Union Budget

TFEU Treaty on the Functioning of the European Union

ToRs Terms of Reference

UDF Urban Development Fund

PROFILES OF PARTICIPATING CITIES

The City of Manchester has developed a network of partner cities that each has a different level of experience with JESSICA type financial instruments, but share a common interest in seeking to improve their knowledge and understanding of the mechanism, while striving to enhance the potential of the mechanism in each respective city.

Although each city is relatively diverse, they all have urban development aspirations that have been adversely impacted by both the reduction in public sector grants and the retraction of a considerable level of commercial bank finance into the property sector. There is consequently a strong potential role for an effective Urban Development Fund to play in providing a source of repayable finance to priority projects in each city.

In some partner cities, the focus of the discussion during the partner visits was on how the existing Urban Development Funds could be more effectively embedded within the governance structures and subsequent delivery of city urban policy. Whereas in other cities, there was considerable debate around how the existing mechanism could be refined and improved from a regulatory and state aid perspective, reflecting the practical experience gained to date in developing and implementing funds.

Alongside selecting cities with varying levels of experience in JESSICA type funds, care has also been taken to select partner cities of varying sizes and with a different sectoral development focus including office development, tourism, renewable energy and energy efficiency, historic city centre rehabilitation, urban physical and economic regeneration . This was so as to ensure a representative view was obtained in terms of lessons learnt from existing implementation efforts but also that proposals emerging from the thematic work proposed in the implementation phase are also representative and can be tested appropriately across the network.

LEARNING NEEDS AND EXPERIENCE

As part of the kick-off meeting, the initial partners were asked to present their existing experience with JESSICA type urban development funds and this has been further explored with new partners as part of the partner visits. The table below outlines the varying degrees of experience and starting points of the partners:

Activity	Cities with no experience	Cities with some experience	Cities with considerable experience
Establishing a HF/UDF	3	5	2
Developing UDF Investment Strategies	4	4	2
Developing UDF project pipeline	4	4	2
JESSICA State Aid	5	3	2
JESSICA ERDF Regulations	4	4	2

The individual partner city profiles are presented overleaf. Each profile sets out the main characteristics of the city in question, its existing economic development governance arrangements and strategies and development challenges. The profiles then include summaries of the existing or potential UDF's role in meeting these challenges and the potential priorities for each Local Action Plan, with a brief description of the Local Support Group.

MANCHESTER

MAIN CHARACTERISTICS OF THE CITY

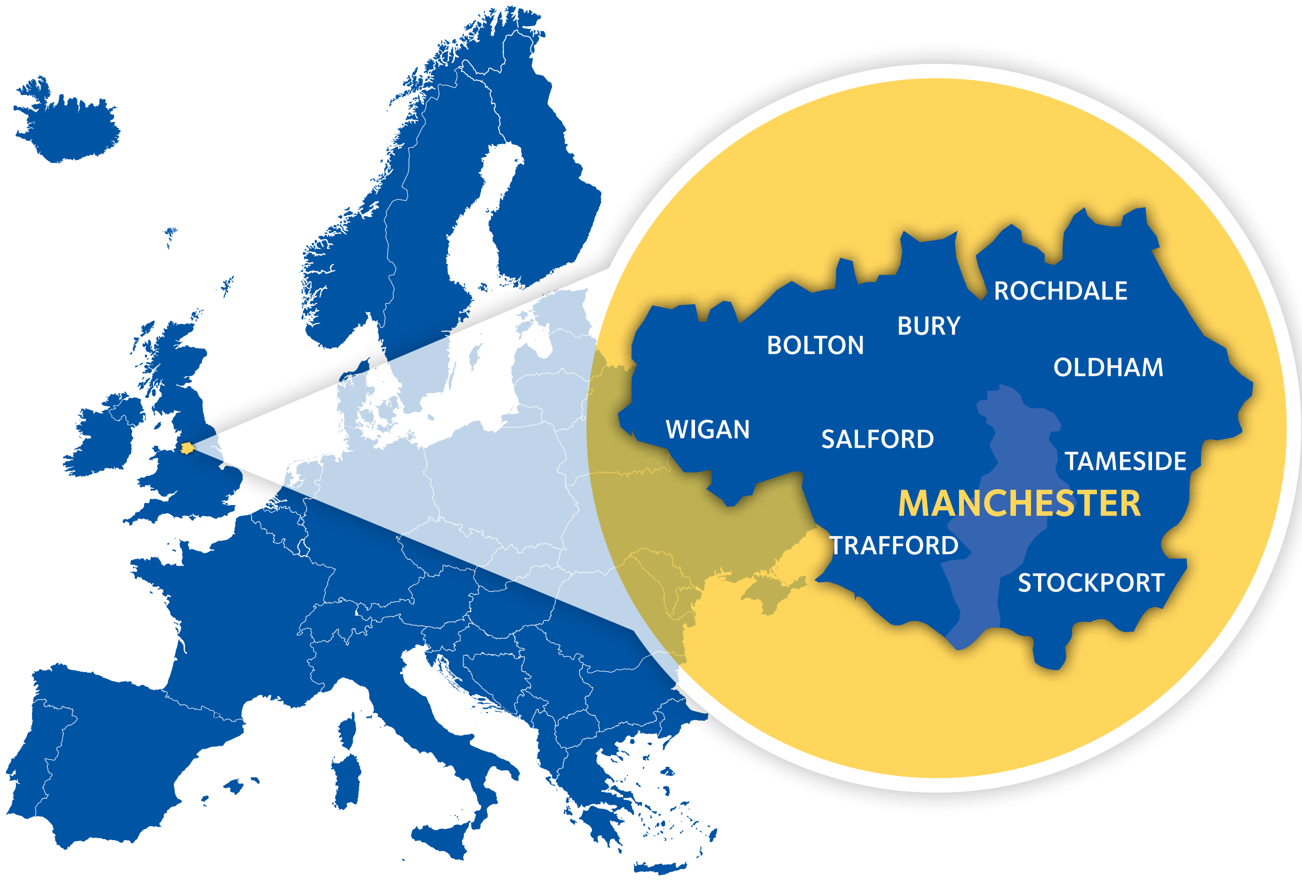
Manchester covers some 117 km^2 and is at the heart of the Greater City Region, in the Northwest of England. The City Region is an agglomeration, a built-up area of connected neighbourhoods and employment centres that together form a single urban area. There is a particularly high concentration of people, firms and employment in Manchester City Centre.

Industry sectors such as business services, ICT, digital and biomedical sciences are key to economic growth in Greater Manchester in terms of new investment, job and GVA creation. Manchester is the economic powerhouse of the North West region of England. The city boasts several key drivers that help sustain the economic growth of the area. These include its world-class universities, a knowledge-based economy, a thriving city centre, a skilled workforce, and Manchester International Airport.

Manchester (along with the other southern districts in Greater Manchester) generated economic activity worth £30.89billion in 2009. As a major regional centre, the city attracts above-average rates of new business start-ups, a diverse employment structure and a competitive labour market.

An important centre in Roman and Medieval times, Manchester played a significant role in the industrial revolution in the 18th century and much of its character is derived from the physical legacy of Victorian innovation. Manchester's population grew steadily throughout the middle ages then rose dramatically during the industrial revolution. As industry began to decline, the city's population fell from 703,100 in 1951 to its lowest in over 100 years in 1999 at 416,400. Since the turn of the century, however, Manchester's population has been rising again, with the latest Census estimates showing that in 2011, the City's population was over 503,000. Projections show an increase to 519,000 by 2015.

Whilst the economy has been restructured and new jobs are being created, the City is still tackling the social, physical and environmental legacy of years of economic decline. Manchester is the fourth most deprived district in the country.



CITY GOVERNANCE

The Greater Manchester Local Authorities formed a Greater Manchester Combined Authority (GMCA) in 2011. The Combined Authority is the top-tier administrative body for the local governance of Greater Manchester. The Combined Authority consists of ten members, each a directly elected Councillor from one of the ten metropolitan boroughs that comprise Greater Manchester.

Together with the Local Enterprise Partnership, the GMCA has developed an approach to delivering its projects to help deliver the next phase of economic growth in the region. The ten local authorities in Greater Manchester are working to deliver a single investment strategy, underpinned by a new Greater Manchester Investment Team. Greater Manchester's single investment strategy is underpinned by the availability of a range of financial support mechanisms. These include the Regional Growth Fund, Growing Places Fund, Evergreen Fund, and the European Regional Development Fund.

The overall objective behind the programme is to create an investment cycle, enabling businesses to invest in projects that will drive economic growth and generate commercial returns. The investment will then be repaid to create a fund for further development. This will move away from dependency on grants and create a mature economy that re-invests in itself to create sustainable and strong growth in output and employment.

The Investment Team through the use of a technical input and challenge framework within the development of the Project Pipeline, Business Case Approval and Committee approval processes at the project level, will provide a "real time" assurance function through their input on a daily basis to the Programme.

Located within the Regeneration Directorate, the Regeneration, Economic Development and City Policy functions comprise teams and services that provide the policy context and help drive regeneration and sustainable economic growth in Manchester and contribute to the prosperity of the city region. Key objectives of the Group are for Manchester to be a key driver for sustainable economic growth at city and neighbourhood level and for public services to be reformed, productivity increased and welfare dependency reduced. We work closely with a range of public and private sector partners across the city to achieve these objectives.

In addition to our single investment strategy, Manchester has recently adopted its **Core Strategy**[1], which has legal status and contains the City's ambitious strategic planning policies for the next 15 years. In an ever-competitive global marketplace, the Core Strategy is an essential tool in delivering the City's vision of being a successful, sustainable and accessible city. Manchester aims to be:-

- a city with a growing economy, driven by a strong city centre and airport, and an increasing and healthy population
- a city with neighbourhoods where people choose to live, with thriving district centres, great transport and high-quality open spaces
- a city which is an international destination for tourism and culture.

At a more local level, the City is covered by six **Local Regeneration Frameworks** which set the priorities for the North, South, Central and East areas along with the City Centre and Wythenshawe, the most southern area of the City[2].

[1] http://www.manchester.gov.uk/info/200079/regeneration [2] http://www.manchester.gov.uk/info/200079/regeneration

OPPORTUNITIES AND CHALLENGES

Manchester's development strategies are very much informed by the findings of the **Manchester Independent Economic Review** (MIER)[3], jointly commissioned by the Association of Greater Manchester Authorities and the former North West Regional Development Agency. The MIER was a ground breaking study in 2009 of Greater Manchester's economy. In March 2012, the Greater Manchester Growth Plan[4] was published which reflects on how the radically-changed economic circumstances have affected the findings of the MIER. Both studies were conducted by an independent group of leading business, academic and economic figures, such as Goldman Sachs' Chief Economist and the founder of the Spatial Economics Research Centre at the London School of Economics. They concluded that Manchester, due to its size, skills base, talent pool, connectivity and political and business structures is best placed to complement London and the South East and contribute most to help rebalance the national economy and support the UK's long-term economic growth.

The vision is of Manchester as a world class city as competitive as the best international cities:

- That stands out as enterprising, creative and industrious
- With highly skilled and motivated people
- Living in successful neighbourhoods whose prosperity is environmentally sustainable
- Where all our residents can meet their full potential, are valued and secure.

The route to achieving this vision uses Manchester's role as an engine of growth with its considerable economic assets. The city has enormous potential to create jobs and economic wealth for the benefit of our residents and the wider sub-region, at a scale that would have significant impact on the national economy. Central to improving our competitiveness is the need to improve our productivity and to increase the breadth and depth of our labour market, increasing the number of people in work and raising skills across the board. This means a focus on Manchester people contributing to, and benefiting from, economic success and our plans for public service reform which will better connect our people to the jobs we create as a City.

A significant level of development has already taken place in the City. This includes:

- the delivery of a number of transformational projects in East Manchester, including new family neighbourhoods, the completion of Eastlands as part of the 2002 Commonwealth Games and further sports infrastructure, Central Park employment site, along side the transformation of neighborhoods in Ancoats and New Islington.
- The development of Spinningfields, a new premium financial and professional services destination in the centre of Manchester. Acknowledged as setting new world class standards for city centre regeneration, the development is office-led, but mixed use, providing high quality commercial, civic, residential, hotel, leisure and retail space in a carefully planned and managed environment.

Current/proposed development activity includes:

- **CityLabs (Former Royal Eye Hospital)** – this project uses a range of public and private finance, including finance from the Evergreen UDF, to fund the transformation of a former Eye Hospital into a state of the art world class employment centre for bio-medical businesses based at the heart of Corridor Manchester. The Corridor is the epicentre of the Region's knowledge and innovation activity, and is home to the University of Manchester, Manchester Metropolitan University, Manchester Science Park and the Central Manchester Hospital Foundation Trust.
- **NOMA53** - Backed by the financial might of The Co-operative Group, the "NOMA 53" project is transforming 20 acres of Manchester City Centre's heartland into a development combining the city's recognised strengths in commerce, culture and community. Offices, shops, hotels and homes: a development pipeline at varied price points, sizes and styles, all linked by a universal commitment to the highest quality of design, experience and environmental performance.
- **Airport City** - aims to create over 4 million ft2 of quality business space, including: Manufacturing, logistics accommodation, grade A offices, hotels, retail and leisure across a 150 acre regeneration site. The realisation of Airport City will significantly accelerate economic growth in the region by creating an internationally competitive business environment that offers the global reach, transport connectivity and available land assets to attract major private sector investment. This will be further enhanced by the recent designation of Airport City as one of the UK's vanguard Enterprise Zones, affording new occupiers up to £275,000 worth of rates relief, a simplified planning process, as well as superfast broadband and focused support from the UKTI for inward investment.

Serious new challenges are affecting the City and its communities. The banking crisis, credit crunch and recession have and are still impacting on our ability to continue to grow our economy. The availability of all forms of private finance from private mortgages to commercial loans has reduced significantly and the Government has introduced sharply reduced levels of public funding and investment. These challenges all impact on individuals and communities, businesses and the public sector.

[3] http://www.manchester-review.org.uk/ [4] http://neweconomymanchester.com/stories/1544-greater_manchester_growth_plan

THE ROLE OF THE UDF IN THE NORTH WEST

A JESSICA Holding Fund was established by the former North West Development Agency and European Investment Bank in 2009, totalling £100m (£50m ERDF and £50m National match funding). The Holding Fund is managed by EIB and has subsequently procured two Urban Development Funds, one for Merseyside and one for the Rest of the Northwest including Manchester. Each UDF has been allocated circa £30m and is required to secure an equivalent level of match or complimentary finance. The Merseyside Fund is known as Chrysalis and the North West Fund is called Evergreen.

The UDF which covers Manchester is the Evergreen Fund. Evergreen was established by a partnership of eighteen Local Authorities led by Manchester City Council. It is therefore very much an intrinsic part of the public sector's infrastructure and funding tools and a key delivery mechanism for the single investment strategy. The UDF covers a wide geographical area, encompassing not only Greater Manchester but also Lancashire, Cheshire and Cumbria. It therefore provides an excellent opportunity for Local Authorities to work collaboratively on cross border development priorities.

The Board of Evergreen is co-chaired by the Chief Executive of Manchester City Council and Lancashire County Council and the fund is managed on a day to day basis by fund managers – CB Richard Ellis (CBRE). Evergreen has an initial pool of £36 million to invest and aims to provide debt finance and potentially also equity investment for projects at competitive rates, where projects are unable to secure the level of commercial bank finance needed or at an affordable level. The fund will commit capital to commercial development and light industrial regeneration opportunities, in priority regeneration areas, as defined in the current ERDF NW Operational Programme.

The Evergreen Fund also benefits from the Northwest JESSICA State aid notification that provides a framework for the fund to provide sub-commercial loans and other investments where necessary to address the viability of the projects. This State aid framework should provide the fund with the opportunity to support a wider range of projects and, by blending sub-commercial loans with private finance, leveraging greater private sector investment into schemes in the future

It is hoped that in the future, Evergreen may be augmented with other sources of public and private funded and its remit expanded beyond commercial office development to other sectors such as low carbon.

Both UDFs in the Northwest, have taken some time to establish due to complications in the match funding structure and the need to be able to operate a hybrid co-finance and co-investment model. Whilst this issue was worked through though, the Northwest Holding Fund secured a state aid approval for its activities, which enables both UDFs to provide sub commercial debt and equity investment in circumstances where projects would not be able to proceed on a commercial basis.

INITIAL FOCUS OF THE LOCAL ACTION PLAN

It is expected that the focus of the Local Action Plan may be on the following key areas:

- Further developing the knowledge and understanding within the City's developer community of how financial instruments can support projects
- Sharing experience from across the network of what does and does not work
- Attracting private investment into urban development including, in particular, the role of the state aid decision in attracting/securing institutional investment
- Improvements to the regulatory basis upon which JESSICA type funds operate, including legal arrangements between the UDF and final recipients
- The added value of pre-development funding/technical assistance to expedite Fund progress and impact
- Building capacity to develop the pipeline of Evergreen projects for the next ERDF programme

APPROACH AND COMPOSITION OF THE LOCAL SUPPORT GROUP

The Local Support Group has met once during the development phase and in addition most members of the Local Support Group participated in meetings with the Lead Expert and Lead Partner during the Development Phase. The Local Support Group will be chaired by the Assistant Chief Executive of Manchester City Council and will be attended by representatives from the two Urban Development Funds active in the region, the European Investment Bank, specialist advisors and consultants who have previously been involved in the JESSICA initiative or similar regeneration investment fund approaches and a range of key stakeholders including developers. The Local Support Group will meet at least quarterly and may also develop sub groups to address specific detailed issues or ideas that may arise during the Implementation Phase.

ANCONA

MAIN CHARACTERISTICS OF THE CITY

The City of Ancona, is located on the Adriatic coast of Italy and the City is the capital of the Marche Region. Despite its coastal location, the City is located at a central point within Italy. Ancona's port is one of the most important in the Adriatic region for passengers, freight and fishing. In recognition of the central role of the port and its harbour, the City itself is built on two hills that surround it to form a kind of amphitheatre.

The City has just over 100.000 inhabitants and the population of the City has been relatively static for the last fifty years or so. Yet despite a relatively low population density (814,97/km²), Ancona has witnessed fast and low density building development, which has provided a number of regeneration challenges.

The City is complex, dynamic and culturally active, and is gradually changing, presenting various issues, from a social and environmental point of view. Ancona is served by its own airport and its main railway station is served by regional and long distance trains, allowing connectivity with other major Italian cities.

Ancona has a very historic past, having originally been founded by Greek settlers in about 387 BC, the City later became a Roman colony and was of significance given its sheltered harbour and geographical location. To this day the harbour remains very central to the economic activity of the City.

Ancona has suffered a number of natural disasters in recent times, notably a major earthquake in 1972 and landslide in 1982, the latter affected 11% of the urban area of the City and has resulted in large sections of the area, being placed under a complex monitoring and alert system.

CITY GOVERNANCE

At regional level, the Marche region acts as Managing Authority for the ERDF and ESF programme and has taken the lead for the implementation of a JESSICA type financial instrument for the area.

A cross agency group comprising representatives from Marche region and the surrounding municipalities including Ancona has been established to oversee the development of the proposed JESSICA Urban Development fund.

OPPORTUNITIES AND CHALLENGES

Ancona has developed a strategic plan to direct the focus of public and private resources in the City and surrounding area. Four high level objectives have been established:

- Ancona – polycentric, habitable and accessible
- Ancona – joint, connected and competitive city
- Ancona – ecological city
- Ancona – landscape, beautiful and identity

The first objective involves further housing development and improvements to the quality of the residential environments of the City. The second objective involves enhancement to the connectivity of the City, building on its existing infrastructure at the airport and port, capitalising on the City's unique geographical position on the Adriatic coast and developing urban development strategies to better integrate the Port and the City.

The third and fourth objectives seek to develop the green economy of the City and promote the City's ecological network, through the development of a green energy urban system and the expansion of the Conero Natural Park into the historic town and increasing the number and quality of green urban areas in the City. Based on these objectives, the following priority wide projects have been outlined:

Some of the key challenges articulated and which potentially could act as barriers to realising the objectives outlined above, include a lack of dialogue between the public and private sector. This means that both sectors often have a limited understanding of each others long term development aspirations and plans and funding needs and requirements. It has also been suggested that the legal framework which governs public/private projects is quite limited, creating further uncertainty

THE ROLE OF THE UDF

Ancona and the Marche region currently do not benefit from a JESSICA Urban Development Fund. However, efforts are underway to establish a pilot fund in the remaining current programming period.

It is envisaged that the relationship between regional governance and the Urban Development fund will be strong. The Managing Authority is proposing to directly establish the Fund, by assembling a number of public funding sources and procuring a dedicated Fund Manager. The development process for the Fund is still underway however at this stage it can be assumed that the Fund will be tasked with pursuing a selection of public sector priorities.

The structure and governance of the Fund will be largely dependent on the nature of the parties involved, but also by the legislation in force in the Member State and the political decisions taken. It is envisaged that the Fund would configured according to a corporate form of private law (corporate governance) or be a subject of public law in all respects.

The establishment of the Fund, after following the necessary approvals, foresees the activation of a public tender for the selection of the Fund Management Board who will in charge for managing technical and financial issues of the fund. The Fund Management Board will also be identified and appointed and will approve the necessary legal arrangements with the proposed Fund Manager. It is envisaged that an Advisory Committee will also be put in place to support the technical and strategic evaluations of projects.

The current strategy for the Fund, does not include limiting interventions to specific sectors, rather it will be a multifunction/multipurpose fund targeted to medium sized urban areas and systems which characterize the territory of Marche Region. This more general approach will allow the Fund to address broader issues than the activity eligible for ERDF support for example social housing.

INITIAL FOCUS OF THE LOCAL ACTION PLAN

It is envisaged that the Local Action Plan will focus on the following areas:

- How to best integrate the private sector in the development and implementation of the Integrated Plan for Sustainable Urban Development
- To examine governance options in respect of the proposed Fund structure, building on best practice and lessons learnt elsewhere
- To increase information and knowledge of the JESSICA instrument and how to develop projects that are able to take best advantage of the funding opportunity
- To learn best practice from JESSICA implementation elsewhere

APPROACH AND COMPOSITION OF THE LOCAL SUPPORT GROUP

The Local Support Group has met once during the development phase and in addition most members of the Local Support Group participated in meetings with the Lead Expert and Lead Partner during the Development Phase. The Group will build upon an already existing Board which has been tasked with preparing a climate change strategy for the City. The Local Support Group be split into two forums – a core group and a wider stakeholder group. The core group will be attended by cross disciplinary policy leads from the municipality of Ancona and the Marche region.

The wider group will be chaired by the Deputy Mayor responsible for Urban Regeneration and will be attended by representatives from Ancona City Hall and Marche Region and other relevant external stakeholders, such as private sector investors. Both elements of the Local Support Group will meet at least quarterly and may also develop sub groups to address specific detailed issues or ideas that may arise during the Implementation Phase.

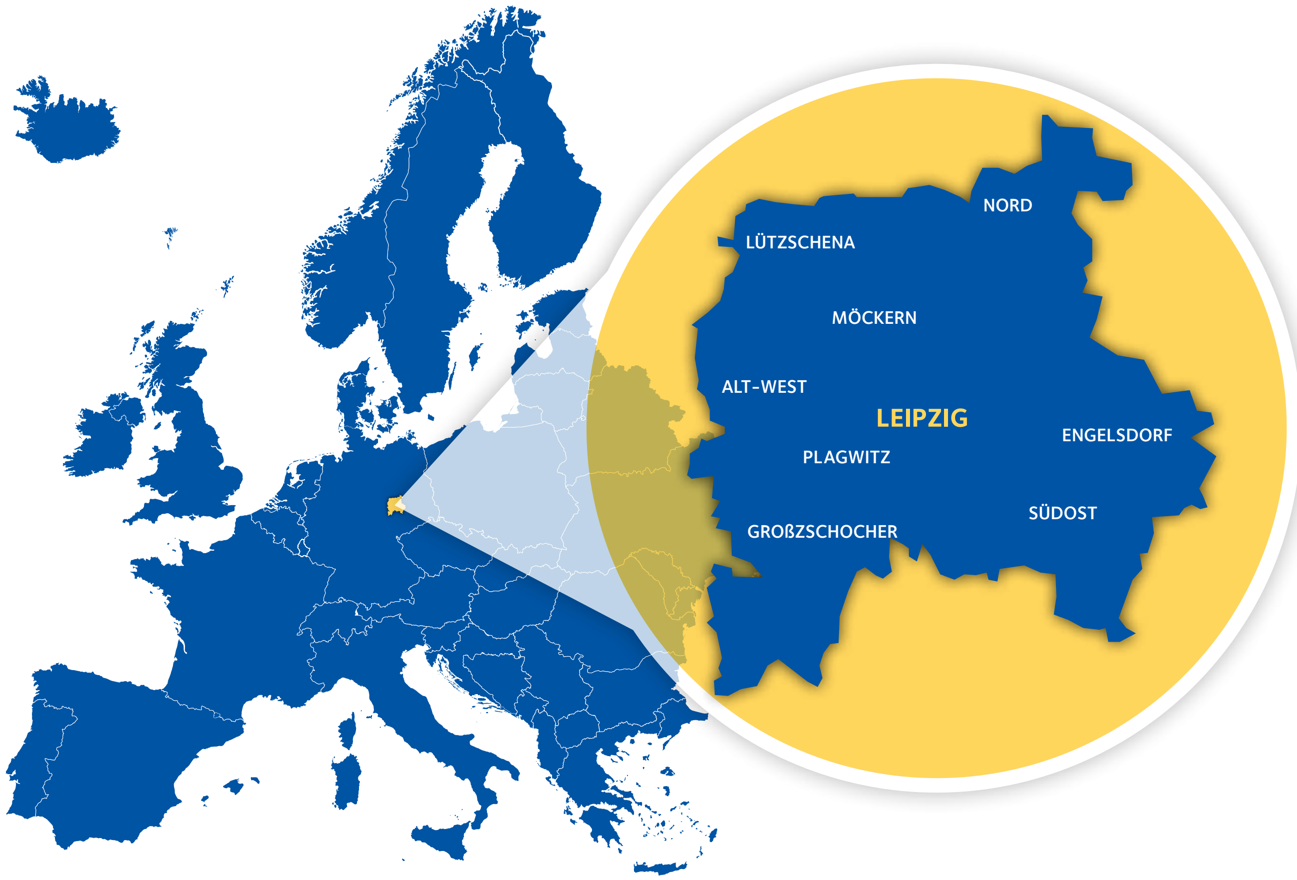
LEIPZIG

MAIN CHARACTERISTICS OF THE CITY

Leipzig is located in the Eastern part of Germany, in the Saxony region and it one of the 3 biggest cities in Saxony next to Dresden and Chemnitz. At the end of 2011, Leipzig had a population of 531,809. Together with City of Halle (Saxony-Anhalt) the city performs an important role as part of the metropolitan region “Central Germany”. This region represents one of the most important trade junctions and economic centres and has established itself as a centre of service industries, automobile industries and logistic sector with rising tendency, also science and research with the focus on biotechnology.

The city has a strong logistics centre, with Leipzig airport being the 2nd biggest cargo airport within Germany with a freight volume of over 600.000 tonnes (DHL and AeroLogic). Logistics are also supported by strong road and rail infrastructure, with the recent construction of new motorway A 72 to Chemnitz and expansion to 6 lanes of motorway A 14 to Dresden and Prague and the construction of a city-centre-tunnel and of the new rail link Berlin-Leipzig/Halle-Erfurt-Nuremberg.

Leipzig is home to a wide range of advanced university medicine and research, regenerative medicine and red biotechnology. Universität Leipzig, Leipzig University Hospital, Leipzig Heart Centre and the IZI Fraunhofer Institute for Cell Therapy and Immunology are just some of the many scientific institutes, clinics and businesses making up the Healthcare & Biotech Cluster with about 30,000 employees and 6,000 youngsters undergoing training. The large number of international health conventions held in Leipzig such as the 2011 World Conference on Regenerative Medicine underlines the city’s importance as a major healthcare centre. The city also hosts two major growing car manufacturers – Porsche and BWW.



CITY GOVERNANCE

At the city level, the decision making body is the city council, which consists of several coalitions. The Mayor is independent from the surrounding counties ("Kreisfreie Stadt") and decisions are made by the city council (majority decision). The main department responsible for urban development is the Department for Urban Development and Construction with its Office for Urban Regeneration and Residential Development. This office works with disadvantaged neighbourhoods and supports initiatives and secures funding to progress and implement urban development projects.

At regional level, Saxony is one of 16 federal states of Germany. The State of Saxony allocates and governs funding (regional, national, EU-funding) for urban development. The Free State of Saxony is also the Managing Authority for ERDF funds.

There is however a divided responsibility between the ministries, the Saxon State Ministry of the Interior is responsible for "Urban Development" and the Saxon State Ministry for Economy is responsible for the management of the EU-funds. It is envisaged that in respect of the 2014-2020 programming period, in comparison to the current funding period the amount of ERDF-funding for Saxony and also for Leipzig will be decreasing because Leipzig is a "Phasing-out-region" at the moment and it is not sure if it will keep the same funding rate so far. For Saxony and Leipzig, the challenge will be to get urban development into the priorities of the next period as one important funding aim.

The urban development strategy for Leipzig 2020 has 2 main goals:

- Improving the framework for jobs
- Improving the framework for a more balanced age structure

Those goals are accompanied by 4 actions lines for Leipzig:

- Increase the national and international importance
- Strengthen the competitiveness
- Maintain and improve quality of live
- Save social stability

Of central significance for all of the above goals is the civic engagement of the Leipzig citizenship. Leipzig seeks to build on its tradition as a civil town.

OPPORTUNITIES AND CHALLENGES

Alongside some of its economic attributes already outlined, Leipzig also has some significant social problems. In comparison to Dresden and Chemnitz Leipzig has the biggest number of unemployed persons and the highest rate of people who are dependent on social services and support. Furthermore Leipzig has the lowest income per household in comparison to the other cities of Saxony.

This to encounter poses a big challenge for Leipzig which must be met with the help of appropriate concepts and measures

- Tense household situation of municipality and limited public budget, e.g. deficit of transport infrastructure
- Declining volume of EU and national funding > funding for new federal states is declining
- Leipzig is growing at the moment > this is why investments

must be taken in social infrastructure > this means growing costs for investment

- > Continuation of positive situation in Leipzig > Challenge of "Keeping the level"
- New aspect of urban development: CO_2-reduction and climate protection as task for the future
- Support of middle class which is very weak because of communistic past
- There is not really the culture to privatize
- It is not attractive enough for investors to invest in urban development
- reliable financing is missing
- difficulties with coordination between different functional departments
- > it is a general problem where integrated development takes place
- we are too much used to grant funding and there is big scepticism about new funding instruments
- handling complicated, use/benefit of UDF not visible

Has taken place:

- integrated funding in disadvantaged neighbourhoods
- redevelopment of fallowed areas (e.g. industry) to green public spaces
- change of the negative demographic tendency > shrinking as a chance
- completion of renovation measures in classical funding areas (Sanierungsgebiete)
- use of urban development promotion programme
- restoration of buildings
- elimination of urban grievances
- revitalisation of heritage-protected quarters

Still in progress:

- development of an old harbour area and an old railway line
- Climate efficiency of buildings > energetic urban development
- Connection of education and quarters
- Development of magistrals with consulting of private owners
- Reaction of new needs for Kindergarten and schools

ROLE OF THE UDF

Free State of Saxony intends to set up an UDF with money from national, regional and local level. One of our first projects which are supported by the Jessica-Fonds of the Freestate is the new creation and the connection of the canal of "Lindenauer Hafen" (harbour Lindenau). Through generating revenues through property selling the fonds can be refinanced. An amount of 3,6 Mio. € will be financed and refinanced through the fonds. On national level there are a lot of programmes for funding energy efficiency projects (e.g. Kreditanstalt für Wiederaufbau – a funding bank, holded by the Federal State of Germany and the Bundesländer). Those funding could also be done through Jessica. This is very important for Leipzig because of its big building stock out of the turn of the century (period "Gründerzeit") which need to be renovated energy-efficiently but which has to be kept and saved (keeping the face of the city).

- It is very open up to now because we are at the very beginning of thinking about possibilities
- First ideas could be: Public-Private Partnership finance models, financing of social infrastructure, modernisation of housing stock aiming at CO2-reduction, support of private stakeholders of urban development and their own projects

Could take over the traditional funding system as "lost funding" and support idea of reusing money by reinvesting it, especially in concrete projects on urban district level

With the help of the UDF we would like to:

- support of projects of private stakeholders in the field of urban development
- instruments for UDF must be simplified in its handling/use
- the management of funds must be very close to the basis/ the projects

LOCAL ACTION PLAN

For us public private partnerships (PPP) are very interesting. Everybody is talking about it but nobody is doing it. We think that cooperation between public and private institutions are the future. For us the project should help "landing" that idea of cooperating with private institutions. For that we must make clear what such cooperation could be and how it could be made binding. Contracts between both parties could be a good start to form a partnership. Alliances between higher-ranking authorities and people from local level shall be defined. What we see as very important is the development of a first model of a simple and functional funds.

At first we need a group (LSG) who is making the UDF popular and who are standing behind that idea. This group should consist of members of the Sächsische Aufbaubank (a funding bank of the Freestate), city administration (urban development but also our mayor for finances), investors and infrastructure developers, Chamber of Crafts, Green Ring (Grüner Ring – a cooperation of regions to work together in green issues) and energy suppliers. It should be a small and close group. One result could be a recommendation how to design a contract for constructing a PPP, please see question above

LILLE MÉTROPOLE

MAIN CHARACTERISTICS OF THE CITY

Lille Métropole is a former manufacturing centre as well as a retail and finance centre. Lille Métropole conurbation is France's 4th-largest urban conglomeration with a population of over 1.1 million.

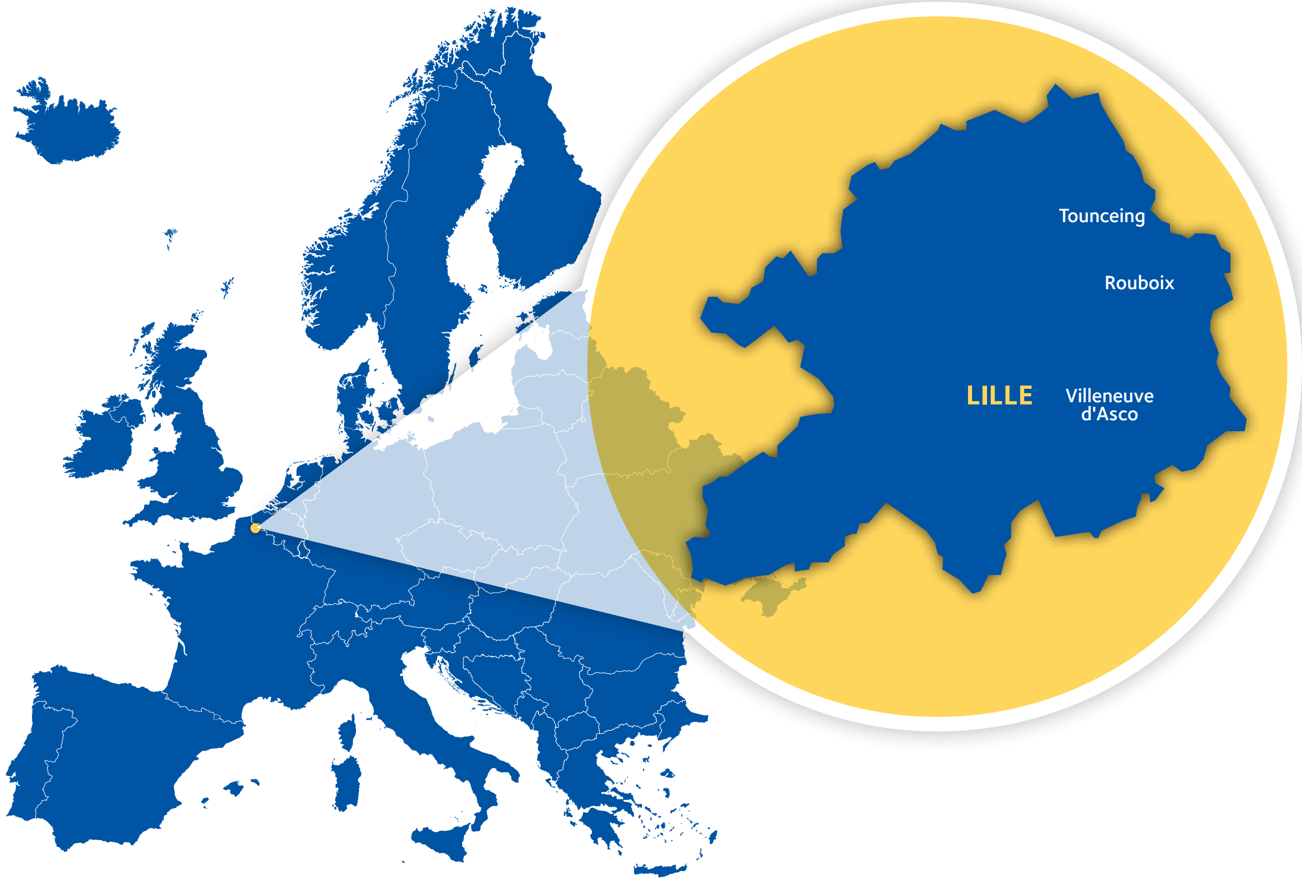
Lille Métropole brings 85 municipalities together in an area of over 600km². The conurbation was established by law in 1966 and in 2009 had 1 108 991 inhabitants. Lille, Roubaix, Tourcoing and Villeneuve d'Ascq are home to 40% of the population each having between 70,000 and 250,000 inhabitants. Half of the municipalities have under 5,000 inhabitants, 50 are rural and 17 towns are on the Belgian border. Lille Métropole has an annual budget of €1.6 Billion.

The conurbation is ideally located as a transport and logistics hub and has the potential to be a commuter town for London, Paris and Brussels thanks to the presence of Eurostar and TGV high speed rail links. It is also very well placed on the motorway network in addition to being on the border with, and closely linked to Belgium.

Lille Métropole features an array of architectural styles, some with Flemish influence, including the use of brown and red brick. In addition, many residential neighbourhoods consist of attached 2-3 story houses aligned in a row, with narrow gardens in the back. These architectural attributes, which are uncommon in France, help make Lille Métropole a transition in France to neighbouring Belgium, as well as nearby Netherlands and England, where the presence of brick, as well as row houses or the Terraced house is much more prominent.

Lille Métropole represents 30% of the regional population and 37% of companies in the region are based here. The labour market comprises

500,000 employees, 45,000 companies and an additional 45,000 jobs are expected to be created over the next 10 years. With its multimodal accessibility at the heart of Northwest Europe, Lille Métropole has 100 million consumers within a 300km radius



CITY GOVERNANCE

Lille Métropole is part of the Region of Nord-Pas-de Calais (4 million inhabitants). This region is governed by the Regional council.

Lille Métropole Local Authority was founded in 1966 and its first president was Augustin Laurent. Each city council delegates to Lille Métropole's council, a total of 170 voting members. In 1971, Arthur Notebart, Deputy Mayor of Lomme, was elected followed by Pierre Mauroy in 1989. He was succeeded by President Martine Aubry in March 2008 to present day. Lille Métropole has a budget of €1.6bn for the main areas of expenditure, which is mainly funded through tax revenue and state allocations.

In terms of urban planning, at the regional level, a territorial planning and Development regional scheme (SRADT) exists. This is a key document which sets regional objectives and priorities. Its implementation is supported by the European Regional Development Fund and national funding. Through SRADT, 3 planning regional directives have been adopted to manage increasing the density of urban spaces (urban renewal and peri-urbanization management) and natural resources (blue and green corridors) as well as to coordinate actions between different stakeholders (urban engineering).

At the metropolitan level, Lille Métropole covers 85 municipalities. This metropolitan governance aims to reinforce the place of the cities as part of a common identity, clarifying the driving role of Lille Métropole and bringing governance closer to citizens. Lille Métropole has its own urban development strategies to address specific territorial challenges as remediation of brownfields, regeneration of districts, density, and sustainable development. Cities of Lille Métropole delegated planning, urban development and housing to Lille Métropole among other policies and responsibilities.

In Lille Métropole, there are multiple stakeholders directly concerned with urban development including: Lille Métropole (LM); towns and cities; EPF (regional tool to buy and remediate soils); land owners; promoters; builders (private or public, operating as semi-public companies); new owners and rentals.

OPPORTUNITIES AND CHALLENGES

In terms of income per capita and density, Lille Métropole is comparable to other metropolises like Anvers, Bilbao, Bordeaux, Essen, Nice & Seville (class 5 - class 1 is Paris & London). Lille Métropole is classified as one of the ten European metropolises of the future (Financial Times).

The headquarters of 15 international companies are located in Lille Métropole.

The numbers of companies created from January to May 2012 fell by 0.3% on the previous year to 4,093. In the first semester of 2011 397 086 inhabitants were in paid employment (-0.2% on previous year). The unemployment rate in Lille in the 2nd semester of 2011 was 12.1%

Lille Métropole has a very industrial past, and therefore has to deal with the regeneration of numerous former industrial sites with major environmental issues. At national level, 20% is brownfield/industrial sites are located in Lille Métropole area and need to be remediated. Urban sprawl is also an issue which is being combated and also leads to a need for brownfield redevelopment. Historically, main economic activities have focused on textiles. Former key economic sectors include traditional textile and clothes; industrial furniture and graphics and editing/printing activities. In addition to these, Lille Métropole has strong experience in the retailing and distribution industries and distance selling, and has dense industrial development. Strong employment growth is also currently demonstrated in the Bio-Technology/ health sector, logistics and e-commerce, creative industries and innovative textile.

Lille Métropole is part of the European Grouping for Territorial Co-operation (EGTC) EuroMétropole Lille-Kortrijk-Tournai (created in 2008), a cross-border area of more than 2 million inhabitants (with Walloon and Flemish regions). In this area tertiary companies represent half of the companies, retail represents a third with the remainder being in industry and construction.

THE ROLE OF THE UDF

On request of the French state, a Jessica feasibility study was done by PWC for the European Commission and EIB at regional level (Nord Pas de Calais).Local authorities in France are not eligible to manage funds of this sort. This is part of the French legal system, however it is hoped that this will change in time for the next programming period 2014-2020.

One part of the study looked at whether it would be best to begin to implement Jessica in this (2007-2013) programme or to wait for the next round (2014-2020), however there didn't appear to be enough information and means (skills, expertise, finance...) available and so it now looks as though this will only be implemented in the next programming period.

It is hoped that the implementation of a UDF in the next round of programming will bring together the strategic aims of the conurbation development plans with those of the UDF to create a coherent and comprehensive instrument for the recyclable investment of funds in the regeneration of Lille Métropole and more broadly of the region.

The goal of Lille Métropole's urban sustainable project strategy is to align investment priorities with Europe 2020 objectives and the regions and to encourage the region to make a clear decision about future operation. This is not expected within the current programme period but will definitively be a point of discussion at regional level during the preparation of 2014-2020 programming period.

INITIAL FOCUS OF THE LOCAL ACTION PLAN

It is envisaged that the Local Action Plan will focus on how to best integrate the private sector and therefore private sector leverage in the development and implementation of the Integrated Plan for Sustainable Urban Development. It will also examine governance options in respect of the proposed Fund structure, building on best practice and lessons learnt elsewhere. Another aim will be increasing information and knowledge of the JESSICA instrument in the region and in France and how to develop projects that are able to take best advantage of the funding opportunity through learning from best practice in JESSICA implementation elsewhere in Europe.

APPROACH AND COMPOSITION OF THE LOCAL SUPPORT GROUP

The structure of the Local Support Group is still being considered. It will however include colleagues from a Brownfield Action Group, and representatives from Finance, Housing, Planning and Urban Development departments of Lille Métropole. Partners will also be included: banks, the regional authority (sf. managing authority), promoters, landowners... will also be involved.

MALMÖ

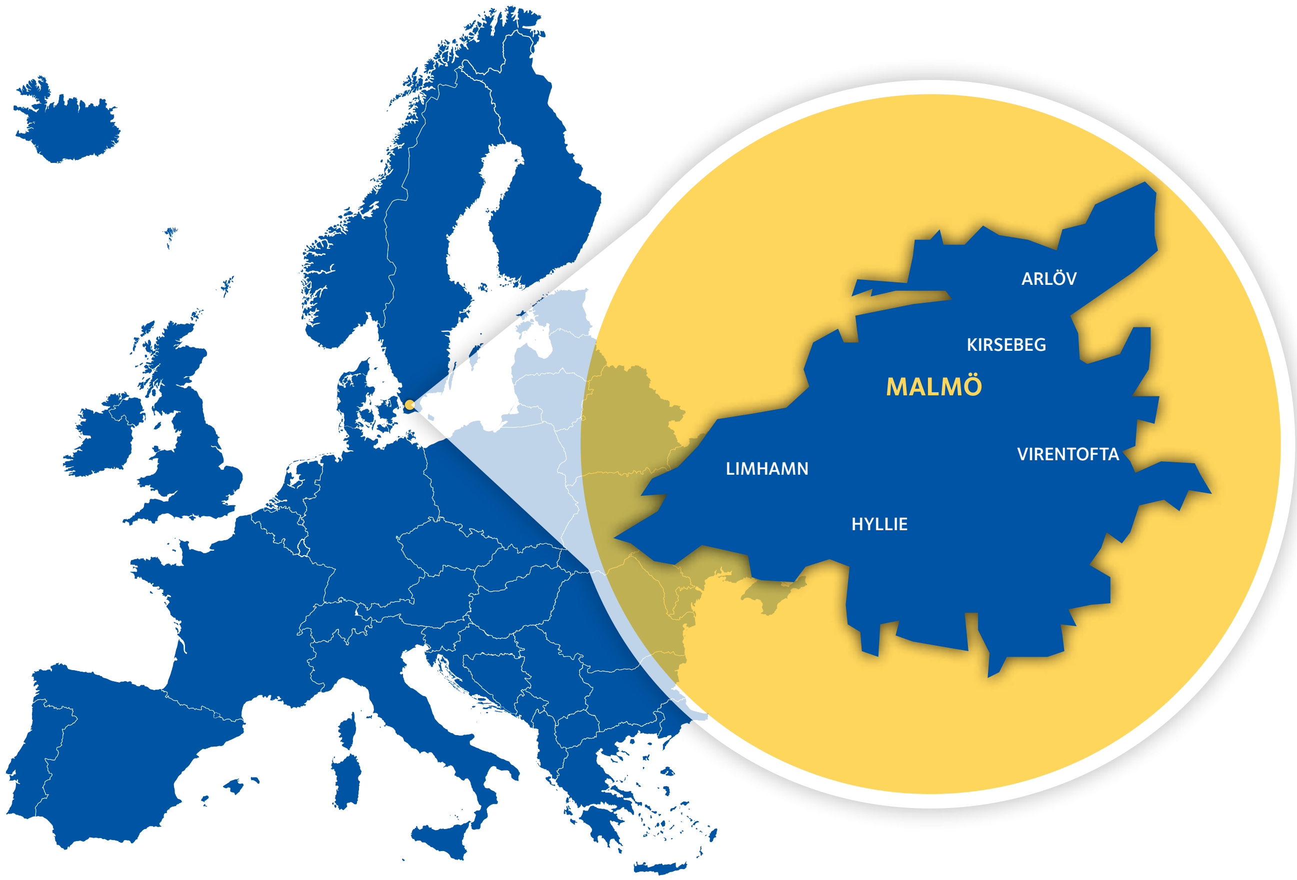
MAIN CHARACTERISTICS OF THE CITY

Malmö is Sweden's third largest city with a population of 300 000. The City is located in the dynamic Öresund region, one of Europe's growth regions spanning Copenhagen, Malmö, Lund, Helsingborg and Helsingör.

Malmö is known for its journey from industrial collapse in the late 1980s to a progressive outlook today, even though incomes in the city are below national average, unemployment is relatively high and school performance is inadequate. The city council's finances are relatively healthy despite the financial problems in Europe.

There are few large employers nowadays in Malmö with the hospital and city as the largest individual employers. The modern diversified economy is dominated by media/IT, service and some technical services. There is little manufacturing left in the city. Many people from Malmö are employed in the service industry in Copenhagen and in the biotech and IT industries in Lund. Malmö is still experiencing a growth of approx. 5000 people/year.

Some significant regeneration of harbour area, redevelopment city centre and development of cycle and public transport infrastructure including the new rail link to the bridge and the bridge itself to Copenhagen have all had a major impact on the urban environment. Very little has been done with regard to the existing housing stock. Some areas of the city are blighted by slum landlords and a large proportion of the housing stock in the city built in the late 60s and 70s is reaching a point where it will need major investment in the near future generating significant costs.



CITY GOVERNANCE

Local government has a high level of autonomy in Sweden, and there is an intermediary governmental level in the County Administrative Boards which are the extended arm of national ministries and agencies and oversee some formal issues regarding urban development. In Skåne there is also a regional authority responsible primarily for health care and regional transport but also with a strategic economic development role.

Municipal decision making processes enjoy a strong autonomy and whilst the CAB may oppose some plans, they have in fact limited powers to intervene unless there are strong legal grounds to do so. Their role is therefore more advisory. The city and region can work closely together on strategic development issues.

Major strategic infrastructure development such as public transport infrastructure etc, may involve a close co-operation between the municipal and regional level with a financial commitment from each partner. However, many urban development issues fall within the mandate of the city.

The city is governed with the support of a large number of strategic plans and programmes but the comprehensive plan can be seen as the main strategic plan for spatial development and economic development with strong social and environmental elements. The Environmental Programme sets out the 2030 targets and is one of the key programming documents for the city.

OPPORTUNITIES AND CHALLENGES

Malmö has a number of significant challenges to address regarding social exclusion and environmental targets. The city is working actively to combine these two objectives to identify ways in which each euro can generate both environmental and socio-economic benefits. The cleantech sector is an important growth area within the city and the development of more green jobs is a high priority for city development strategies in the future.

The city has a target to be powered by renewable energy and to half energy use by 2030, generating as much renewable power as possible within the city's boundary. The aim is to find financing models to help achieve this target whilst also supporting work to reach zero unemployment.

The technological strategies have been identified, many private partners are committed to making investments to achieve these goals, but the financial mechanisms for all of these elements is not yet in place, not least with regard to employment benefits to the local community. Creating this link is therefore of primary importance and there is an increasing confidence that cutting the cost burden of unemployment (a large proportion of which is paid by the city) can free capital for development measures that can create employment. One key challenge is finding the financial mechanisms that allow this financial shift to take place.

To achieve the 2030 targets, a rolling programme of development is of high importance in which new ideas can be tested and best practice mainstreamed to provide the basis for new innovations. The city has its own tax raising powers and the ability to borrow at low interest rates which forms a solid base for public investment. However average incomes are low and in the current economic climate investment opportunities are limited. The long term prognosis for economic development sees a continued slow growth but nothing that will dramatically improve the economic situation in a city with low average incomes.

Previous large-scale investment has been largely financed by land sales and sale of other assets such as ownership of local energy company. These financing mechanisms work relatively well for new development and brownfield renewal but are less well suited to dealing with a more piecemeal urban regeneration process in residential areas where urban densification initiatives and housing renewal can go hand in hand but place additional demands on public infrastructure without necessarily the level of return on investment for the private sector to bear the total development cost of the public investment

THE ROLE OF THE UDF

There is significant interest in the private sector in investment in the city and an increasing interest to consider innovative technical and social and mechanisms to achieve broader goals. However, there is experience of projects not being delivered because broader socio-economic benefits have been insufficient from a commercial perspective for a positive decision to be made on some investments, such as a major retrofit and new development in existing housing areas. Finding ways of sharing the broader financial benefits to help facilitate a higher ambition in the actual delivery is therefore of utmost importance and it is hoped a UDF could play a major role in this regard.

There is currently no UDF in Malmö, but the City is hoping that a future UDF could be an additional mechanism to invest in projects aiming to reach the zero carbon zero unemployment target, potentially incorporating social bonds and similar tools to reach broader socio-eonomic targets. The UDF would be used when conventional funding mechanisms are unable to finance measures despite a relatively good socio-economic return on investment. Ways of regenerating funds for investment through socio-economic cost-savings would be a key strategy.

A future UDF could be arranged in different ways. One possibility could be for a regional UDF involving Malmö, Lund Helsingborg and possibly other cities as well as the Region. However, in order to pilot and develop an early UDF model it may be more realistic to focus on a city focused model in which the decision making structure is based within Malmö. The complicating feature would then be the relationship between public and private partners in the UDF

INITIAL FOCUS OF THE LOCAL ACTION PLAN

It is expected that the focus of the Local Action Plan may be on the following key areas:

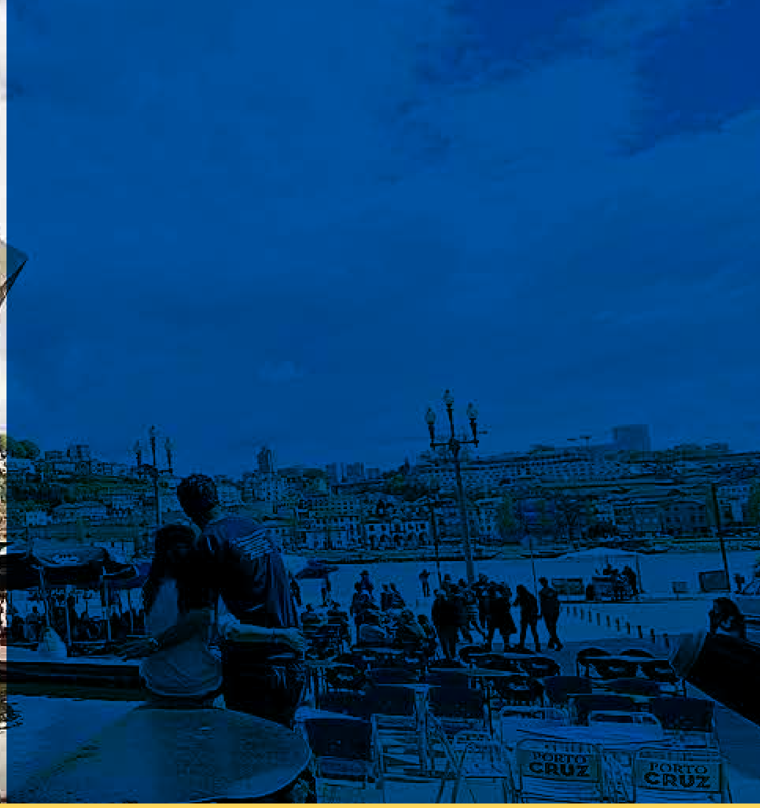
- The feasibility of and barriers to deploying ERDF and ESF through a financial instrument, consideration will be given to the need to rolling out a combined FI pilot.
- This will include the regulatory framework required to deploy ESF and ERDF in this combined FI manner
- Consideration/resolution of national legal issues which may hinder development progress
- The potential project portfolio and 'bundling' of activity and the resulting financing needs, including consideration of a more long term 20 year + infrastructure type fund model and the implications this has on funding flows and model viability
- The potential investors and their requirements

APPROACH AND COMPOSITION OF THE LOCAL SUPPORT GROUP

The Local Support Group will be divided into two groups, the smaller more focussed group will be attended by a number of policy leads from relevant departments from the City of Malmö. The group will be chaired by Trevor Graham, Head of Sustainable Communities and Lifestyle.

The wider group will comprise a range of external stakeholders, including private developers and property owners and potential investors, including insurance companies and representatives from the Regional Growth Agency. This group will engage in broader regeneration themes that will input into the Local Action Plan, this group will also consider wider activities beyond project financing such as technical issues in delivering the regeneration priorities.

Both components of the Local Support Group will meet at least quarterly during the implementation phase.



PORTO

MAIN CHARACTERISTICS OF THE CITY

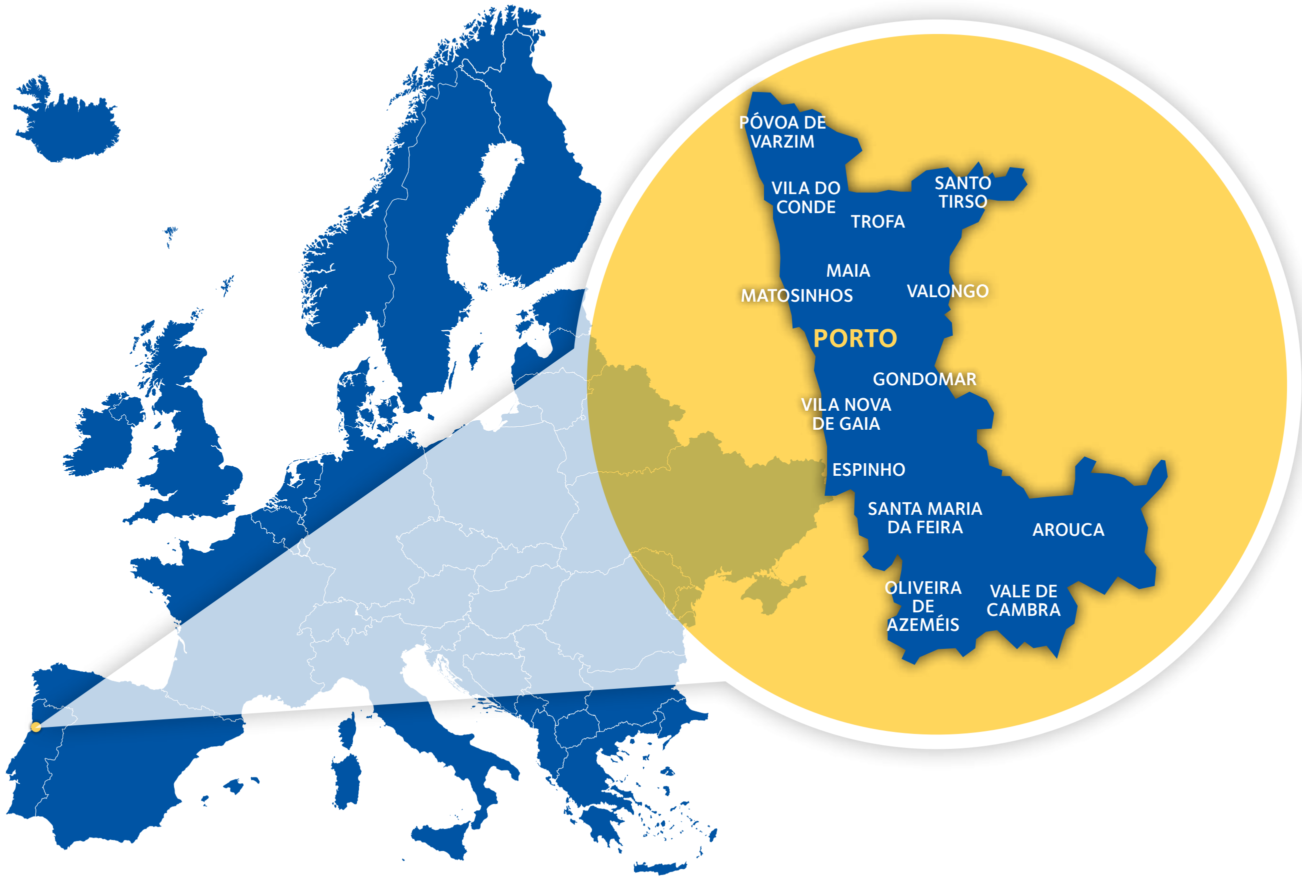
Nowadays, Porto (or Oporto) is still Portugal's second most important city. Its surrounding metropolitan area (MAP) comprises sixteen municipalities and is the largest urban conurbation in the northwest of the Iberian Peninsula.

The historic centre of Porto was classified as a World Heritage Site by UNESCO in 1996 and the City is also the gateway to World Heritage classified sites both in Portugal (Douro Valley, Foz Côa, Guimarães) and in the Castilla y Leon and Galicia regions. The city has important cultural assets, including the Serralves Foundation and Casa da Música. The city's tourism industry is continuing to develop, the airport has been recently modernised and expanded and a new cruise liner terminal has been developed in the nearby Leixões seaport. The hotel offer is also rapidly expanding and improving. The city is now the third most visited tourism destination in Portugal and won the award for Best European Destination in 2012, beating over 19 major European Cities to the accolade. The city is also an important venue for international events, fairs and exhibitions, seminars and congresses.

The Northern region of Portugal is heavily dependent on manufacturing activities and business services and the region was responsible for 37% of Portugal's foreign trade in 2011. Porto has the largest regional seaport, whilst also being an important innovation hub, mainly influenced by the presence and activities of 1 public University (with a total of 31,043 students in 2010, which represents 35% of the total number of university students in the country), 4 private Universities, the Catholic University, several higher education institutes and R&D centres (like it is the case of the ICT and creative cluster, the biotech and health cluster, the mechanical engineering hub, or even the sea cluster). The city also has a strengthening creative industries sector, strongly promoted by the ADDICT Agency.

The origins of the city of Porto date back to the end of the Bronze Age. After five centuries of Romanization, the City was occupied after AD 410 by successive waves of Swabians, Visigoths and Moorish people. During the Middle Ages, the city was home to Christians, Porto was then a City of clergymen, merchants and handicrafts' workers. Later on, throughout the 18th century, the city's economic dominance grew, based on foreign trade. In the transition of the 18th to the 19th century, the City was at the heart of a major export-oriented manufacturing and agricultural region.

Provisional data from the 2011 Census, indicates that the metropolitan area has over 1.6m residents, whilst Porto



has only 237,559 residents. Since the 1981 Census, when considering the present metropolitan area (including 16 municipalities in 2011, compared with 15 municipalities in 1981, because the Municipality of Trofa didn't exist at that time), it has witnessed an increase of 36% in its population, whilst the City of Porto has lost 27% of its population during the same period. In the historic centre of the city, the population fall has been even more acute, with a 67% fall between 1981 and 2011. The population reduction is a result of the suburbanisation process and of the degradation of the physical environment of the city, caused by the constraints of the old legal framework that dates back to the 1940's, and which has paralysed the rental market mainly since the 1970's.

CITY GOVERNANCE

The Municipality of Porto is formed by the City Council of Porto (the executive cabinet, elected by citizens of the area) and the Municipal Assembly (the deliberative body, with 54 elements – 39 of which are directly elected and 15 are the Presidents of the civil parishes). The City Council consists of the Mayor – Rui Fernando da Silva Rio, who is now on his third and final term as Mayor. There are 12 Municipal councillors and eight Municipal Directorates, including an Urban Planning and Mobility Directorate, which is responsible for urban planning and regeneration.

At municipal level, the regeneration programmes are delivered in partnership with "Porto Vivo, SRU – Sociedade de Reabilitação Urbana da Baixa Portuense, S.A.", "GOP – Gestão de Obras Públicas da Câmara Municipal do Porto, E.M.", and "DomusSocial – Empresa de Habitação e Manutenção do Município do Porto, E.E.M.". Porto Vivo SRU is a publically owned company that promotes the revitalisation and regeneration of Porto's downtown district and historical centre. GOP is a municipal company that promotes public space interventions and Domus Social is responsible for social housing management and refurbishment.

At Metropolitan level, there are currently 16 municipalities and the 'Junta Metropolitana do Porto' is responsible for the co-ordination of urban regeneration policies and planning, including social housing. The Mayor of Porto is also the President of the 'Junta Metropolitana do Porto'.

At regional level, the Regional Development Coordination Commission is an administrative body responsible for the management of European Funding through the 'Novo Norte – ON.2' Operational Programme. This Operational Programme includes urban development activity.

There is also a centrally managed national ERDF Operational Programme for Territorial Valorisation (POVT), which includes resources for innovative urban development activity. At national level the "IHRU - Instituto da Habitação e da Reabilitação Urbana, I.P." (Housing and Urban Rehabilitation Institute), which is also the main shareholder of Porto Vivo SRU (60%), has a strong interest in social housing support.

OPPORTUNITIES AND CHALLENGES

The main focus of the Networks activities in Porto, will be on the role of the UDF in relation to the regeneration of the downtown area of Porto. The problems identified to be resolved in this geographical area are listed as follows:

- economic revitalization, business development and commerce improvement;
- attraction of new residents and new economic activities;
- public space improvement;
- promotion of tourism;
- physical heritage safeguard and promotion;
- energy efficiency, renewal energies and green economy;
- financial sustainability.

To support the delivery of programmes addressing the issues above, a number of regeneration plans have been developed and/or have to be referenced to at national, metropolitan, regional and city level. These include - Plano Director Municipal – Municipal Director Plan (2005), Masterplan of Porto Vivo, SRU (2005), Área de Reabilitação Urbana do Centro Histórico do Porto (Plan for the Urban Rehabilitation Area of the Historic Centre of Porto, 2012), Metropolitan Area of Porto 2007-2013: Territorial Programme of Development (2008), Regional Plan for the Territorial Planning of the North Region – PROT-Norte (2007) and Cities Policy – POLIS XXI (2007-2013).

In terms of development already completed, the city underwent heavy investment in urban renewal under the European Capital of Culture project (2001) and the European soccer championship in 2004. Significant interventions in public space and refurbishment works in social housing, as well as infrastructure modernisation were also accomplished, as for instance, in 2003, the opening of the Infante Dom Henrique bridge. At Metropolitan level, the metro line, the modernisation of the Francisco Sá Carneiro airport and Leixões seaport, and the construction of a new cruise terminal, are the most relevant projects in recent years.

In terms of current activity, Porto Vivo, SRU is intervening in 32 intervention areas that include 719 buildings and a gross built area of 498.200m^2. There are two action programmes for the urban rehabilitation of two central areas, the Morro da Sé and Mouzinho/Flores Axis, in place, enabling the regeneration of buildings, with the private support, as well as the public space improvement. The transformation of the Priority Intervention Zone, as defined by the Masterplan of Porto Vivo, SRU, into seven new urban rehabilitation areas, namely, Historic Centre of Porto (already created), Cedofeita, Aliados, Bonfim, Miragaia, Lapa and Santos Pousada, will support further new urban rehabilitation operations that will be put in place within a 15 years' time frame.

Incentives have also been developed to encourage greater development in the centre of the city, to attempt to prevent further suburbanisation. For instance, the incentive of SIM-Porto (in Portuguese, "Sistema Multicritério de Informação da Cidade do Porto") consists of developers gaining construction credits for projects in other parts of the city, if they perform rehabilitation interventions within the area of intervention of Porto Vivo, SRU. Therefore, efforts are underway to change the focus of investors and developers away from new build development to refurbishment, especially in relation to city centre living.

Despite the recognition of urban regeneration as a national priority and objective, the current financial situation poses effective restraints to public and private investment. The financial sector is not financing the economy and private promoters find very difficult to have the adequate financial support. As far as public incentives are concerned, a number of projects are been postponed or await decisions from public entities, like the Managing Authority or other decision making bodies. It has thus proved difficult to generate regeneration momentum.

The legal framework concerning rent controls also acts as a barrier to urban development, dissuading investors from bringing forward urban development projects. Despite the fact that the legislation concerning urban regeneration and the rental housing market has been recently revised, many are doubtful about its successes. National incentive programmes, which had a strong impact in helping owners to rehabilitate their buildings, have also been interrupted due to the current financial situation.

THE ROLE OF THE UDF

The JESSICA structure in Portugal comprises one national Holding Fund managed by EIB, which is related to 6 operational programs and 5 regions. Total investment awarded at UDF level is 130 million €, with a co-investment of 61 million € at UDF level and of 144 million € at project level. The Norte UDF, which is managed by "BPI - Banco Português de Investimento", has a 60 million € total, 50% from the HF and 50% from BPI, and is loan oriented on a 1 to 1 basis. The second UDF is managed by Caixa Geral de Depósitos and the "IHRU - Instituto da Habitação e da Reabilitação Urbana, I.P.". The second UDF also covers Porto, but offers different financial products to financial promoters than BPI.

The North Regional Development Coordination Commission contributed 30 million Euros into the JESSICA Holding Fund Portugal and it is also a member of the investment board of the HF. In fact, the President of the investment board is the President of the North RDCC.

The JESSICA Holding Fund Portugal has 4 priority intervention areas, which include:

- Urban rehabilitation and regeneration, including infrastructure and equipment;
- Renewable energy and Energy efficiency;
- Urban economic regeneration, specially regarding SME or innovative companies;
- Communication and Information Technologies, including broadband and wireless.

There is therefore already a degree of alignment between the high level priorities of the HF and the City, while one of the challenges remains as to how these high level strategies are translated into programme and project activity on the ground and investable projects are subsequently developed to take advantage of the funding opportunity.

Further challenges relate to the need for compliance with ERDF rules, which can act as a deterrent to private sector investors, especially when there is a lack of clarity over some regulations. In some priority areas, as in the historical centre of Porto, which is a UNESCO classified site, regeneration projects must also comply with the specific legislation on intervening in heritage sites. Moreover, the costs inherent to legal constraints and heritage safeguarding issues (archaeological digs, for instance) delay or even prevent any investment "readiness", by negatively impacting on the viability of some developments, which can only really then be addressed by grant support. There is an opportunity to better combine grant funding sources and JESSICA funds at a more strategic level, to ensure grant funding can be utilised to help address some of the viability issues raised.

Another issue, which is particularly relevant for public sector project promoters, like the municipality, and which impacts on the attractiveness of JESSICA type instruments is that, depending on the project structure used, JESSICA loans may aggravate public debt. As a matter of fact, there are, at the present moment, legal restrictions concerning the limits of municipal debt, while also the City office is politically committed to low indebtedness.

State aid limitations can also act as a barrier and the application of state aid rules is not considered to be that clear in JESSICA activities in Porto. State aid decisions at national and community level often take too long, compromising the projects. This is an important and transnational issue that should be dealt with at CSI Europe level, as an output of the project.

The UDFs currently appear to be allocating funds on a basis first come first served basis. This can prove a disadvantage for bigger more complex schemes that take longer to develop than an average project. In the Northern region, the number of projects submitted and awaiting approval (pipeline) represent 317% of the JESSICA funding available.

INITIAL FOCUS OF THE LOCAL ACTION PLAN

It is expected that the focus of the Local Action Plan may be on the following key areas:

- How to optimally finance urban regeneration projects at city level, considering the integrated strategic priorities of the City?
- How do UDF managers integrate City and regional planning strategy in their projects' approval decisions?
- How JESSICA type financial instruments may be combined with grants and be used to lever further private and public resources, namely, in projects with a larger social component?
- What are the regeneration sectors that have a more important leverage and multiplier effect?
- In the case of Porto, is there too much focus on tourism-related projects, at the expense of other sectors?
- How can different regeneration strategies be best combined to present an integrated plan for sustainable urban development that aligns various stakeholder interests?
- What capacity building is needed in terms of governance needs and project pipeline development?
- Should housing be also a JESSICA priority intervention area, as far as urban rehabilitation projects in historic and deprived city centre areas are concerned, though the ERDF eligibility criteria may constrain this?

APPROACH AND COMPOSITION OF THE LOCAL SUPPORT GROUP

The Local Support Group has met once during the development phase and in addition most members of the Local Support Group participated in meetings with the Lead Expert and Lead Partner during the Development Phase. The Local Support Group will be chaired by the Chief Executive of Porto Vivo SRU and will be attended by representatives from the City of Porto, the two Urban Development Funds active in the City, University representatives (University of Porto and the Portuguese Catholic University), the Science and Technology Park of the University of Porto, the Managing Authority, the Urban Rehabilitation Society of Coimbra, ADDICT - Agency for the Development of the Creative Industries, the Energy Agency Porto, representatives of the JESSICA office of the European Investment Bank, the Youth Foundation, the Serralves Foundation, "FundBox - Sociedade Gestora de Fundos de Investimento Imobiliário, S.A.", and the Association of Porto and Northern Region Tourism. The Local Support Group will meet at least quarterly and may also develop sub-groups to address specific detailed issues or ideas that may arise during the Implementation Phase.

POZNAŃ

MAIN CHARACTERISTICS OF THE CITY

The City of Poznań is located in the Wielkopolskie Lake District. Poznań, together with Szczecin and Wrocław, are the largest Polish cities located closest to the German border. The distance from Poznań to Poland's eastern border is 454km, to the western border 161 km and to the southern border 236km.

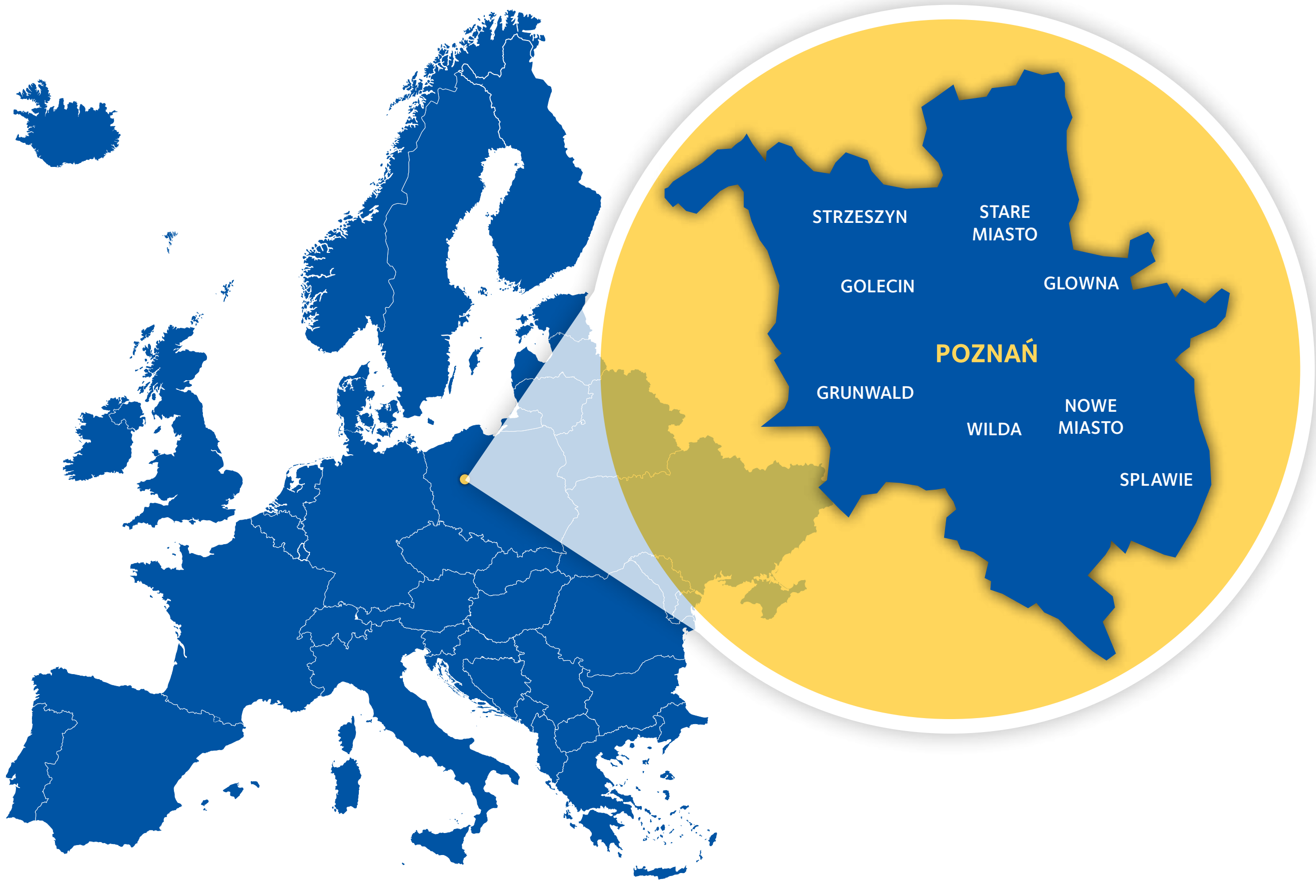
Poznań ranks fifth among Polish cities in terms of population (after Warsaw, Łódź, Krakow and Wrocław). It is the largest city and capital of the Wielkopolska region, inhabited by 552k people. The population density is about 2.2k people per 1 kmsq.

Poznań is one of the oldest and largest cities in Poland. It is the historical capital of the Wielkopolska Region. The city is an important junction in the European East-West corridor and is a significant centre for trade, services, industry, culture, higher education and science. It is also among the leading Polish cities in terms of its economy.

The city's economy is dominated by the services sector, which constitutes 71% of the gross value added and employs 74% of the working population. Gross domestic product per capita is the second highest in Poland after Warsaw. Poznań is home to a number of international corporations including GlaxoSmithKline, Volkswagen, Unilever, Carlsberg, Microsoft and Samsung. The City also has a strong trade fair market, hosting the Poznan international fair which is the second largest exhibition organised in Central and Eastern Europe.

The business activity of Poznań's citizens is very high. At the end of 2010 a total of 98.1k businesses were registered in the REGON system in Poznań. This accounts for 26% of all the businesses registered in the Wielkopolska Region and 2.5% of all the businesses registered in Poland. There were 156 businesses per 1000 inhabitants. The majority (99%) of all the businesses in Poznań are small companies which employ up to 49 people. 95% of the businesses in this group are micro companies which employ up to 9 people. Nearly 1/4 of the commercial companies have foreign shareholders. At the end of 2010, there were about 2.8k such business registered (nearly half of all companies operating in the Wielkopolska Region) mainly with shareholders from Germany, the Netherlands and France.

In 2009, there were 222.2k people employed in Poznań, i.e. 391 employed people per 1000 inhabitants. The largest number of work places was provided by the small enterprises group (employing up to 49 people) which represent 99% of all the companies registered in the REGON system (the statistical identification register). The leading employers in Poznań (employing more than 1000 people) operate in the



following sectors: manufacturing, construction, transport, communications, financial agents, education, health care and administration. The largest employer in the industry sector is the car manufacturer, Volkswagen Poznań Sp. z o.o., and in the educational sector – Adam Mickiewicz University.

The situation in Poznań's employment market is favourable in comparison to other large cities in Poland. Since the mid 1990's the unemployment rate (3.5% in December, 2010) has not only been the lowest in the region, but also one of the lowest in Poland. It is nearly three times lower than the national average.

Poznań is one of the oldest cities of Poland. It is the historical capital of the Wielkopolska (Greater Poland) Region, where the Polish State was born 1000 years ago. The origins of the city date back to the 9th century, when a castle – town, the seat of one of the ruling Duke's, was established in Ostrów Tumski on the right bank of the Warta River in the flood basin of the Warta and Cybina Rivers. Soon it was surrounded by the beginnings of a municipal settlement. The first Polish rulers, Duke Mieszko I and King Bolesław I Chrobry who used the city as one of their main seats are both buried in Poznań Cathedral – one of the oldest Polish churches.

In the 11th century the centre of national political power moved to Krakow (Cracow), and later to Warszawa (Warsaw), although Poznań as the chief city of Wielkopolska, remained an important regional centre. During Poland's fragmentation, for most of the period from 1793 to 1918, Poznań came under Prussian (later German) rule. The city became a Prussian military base and developed within the borders of so – called Festung Posen (Fortress Poznań). From the beginning of 20th century and after regaining of Poland's independence (11th November 1918) the City's area expanded beyond the former fortress boundaries. From 1919 to 1939 and during the communist era after the World War II, Poznań was a capital of the Poznań Voivodship. Since the latest administrative reform of Poland in 1999 Pozna ń became the capital of Wielkopolska Voivodship (region) – one of the 16 Polish Voivodships (regions).

CITY GOVERNANCE

At regional level, the Regional Operational Programme strategy, which governs the use of ERDF funds is developed by the Marshal's Office of the Wielkopolska Region. Cities (including Poznań) are consulted within the process.

Relatively recently, there has been increased co-operation between communes within the Poznań Agglomeration. The Association Poznan Metropolis has recently been established comprising the following members: the city of Poznań, 20 surrounding municipalities and the Poznań District (poviat).The Metropolis is concerned with the integration of the municipalities, a formal association was established in December 2011 and they have developed five axis of activities:

- Development Planning
- Infrastructure
- Labour market
- Social services
- Integrated management and marketing

The metropolis has co-operated with the Centre for Metropolitan Research (University of Adam Mickiewicz in Poznań) in preparing these activities.

The main priorities for development of the City of Poznań are set in the Poznań Strategy 2030. Implementation of the Strategy is based on the system of strategic management that was created according to project management methodology. The system has been obligatory since 2011 for all the Departments of Poznań City Hall and municipal organisational units.

There are 5 levels of project management in the City:

- The level of the Mayor of Poznań who accepts the "sustainable portfolio of projects" (understood as a group of projects aiming at ensuring effective management for attaining strategic goals of the City);
- The level of Poznań Development Strategy where the Steering Committee monitors the portfolio of projects and recommends to the Mayor those projects that should be introduced. The Steering committee is the interdisciplinary team responsible for integration of strategic management and multiannual budgetary planning;
- The level of strategic programme promoter (deputy mayors or city secretary who supervise implementation of their adequate strategic programmes) who monitors and evaluates projects' portfolios;
- The level of single strategic programme with the assigned portfolio of projects that is managed by a chairperson (currently there are 21 strategic programmes);
- The level of project managed by the project manager.

CHALLENGES AND OPPORTUNITIES

The key challenges for the City are identified and listed in the Development Strategy for the City of Poznań to 2030'" (Poznań Strategy 2030) and include the following themes:

- Optimising transport in the city and the agglomeration'
- Halting the decline of the city's population
- Combating social exclusion
- Development of metropolitan functions
- Creation of Poznań cultural product in relation to the implementation of its metropolitan functions
- Poznań as an entrepreneurial city able to compete on the global market
- Poznań as a university centre of European importance
- Improvement in the quality of education
- Poznań as a city attractive for creative, active and enterprising people with high qualifications
- Development of co-operation between the Poznań agglomeration's local government
- Enriching the city's tourist offer
- Improvement of the city's spatial management and its utilisation
- Creation of a functional system of communal services compliant with EU requirements

It is also understood that there maybe an oversupply of projects co-financed within the Structural Funds 2007 - 2014 offering office space for SMEs and start-ups. This is a very popular project idea for investments.

There are also some challenges that are general for the Polish cities. There has been a decrease of cities' incomes and increase of cities' public obligations (for example: local government units are responsible for financing education), which limit the amount of available capital resource for urban development. Also when incurring debts (for example loans offered by JESSICA) the cities are obliged to abide the municipal debt indicator of 60% of the yearly municipal income, which limits the extent of debt the Council can take on.

There is no official legislation for regeneration (revitalisation) of cities at the central (government) level. Revitalisation does not have a status of "public task" and no separate budget line for revitalisation in the central government budget. Municipalities and communes do not receive money for revitalisation from the central budget and are mainly charged with revitalisation tasks within their budgets.

Municipalities also face problems with the implementation of PPP law and in consequence co-operation between local government and private partners is very difficult and still insufficient. PPP is relatively new in Poland. The first PPP Act was adopted in 2005 but problems with its implementation linked mainly with bad political climate and too strict regulations led to its legal modification. Since 2009 in Poland there are 2 acts:

- The Public-Private Partnership Act (19 December 2008)
- Concession for construction works and services Act (9 January 2009)

ROLE OF THE UDF

The UDF (managed by BGK - Bank Gospodarstwa Krajowego) has a relationship (via EIB as Holding Fund Manager) with the Marshal's Office of the Wielkopolska Region. The Marshal's Office sits on the HF Investment Board and through this has a role in monitoring overall progress.

The City is not however directly involved in the Holding Fund or the UDF. The City's only relationship with the UDF is via informal communication, for example advising how a project might fit within a local revitalisation programme or suggesting potential projects to the UDF. The Metropolis is also not involved with the UDF.

The City would like a closer working relationship with the UDF, to ensure better alignment with the cities regeneration plans. Currently dialogue between the city and the UDF is informal and there are opportunities to introduce a more structured approach, which would enable the city to better understand the UDF's programme and vice versa, hopefully enabling a greater pipeline of projects to be developed for UDF funding.

The UDF is able to provide more flexible loan products than commercial banks, which make it an important source of potential funding for the City's projects. There are a number of themes of the 2030 Strategy that the UDF could potentially support. These include support for University incubation facilities and grow on space for spin out companies, redevelopment of post industrial sites and the development of premises to support the needs of enterprises and the redevelopment and thermal modernisation of existing buildings, including potentially housing.

In terms of current linkages between the City and the UDF's strategies, the UDF imposes the following requirements on projects:

- Eligible in accordance with the Operational Programme
- State aid compliant
- Forms part of the local revitalisation programme (IPSUD)
- Passes the BGK assessment

The Marshal's Office provides advice and guidance to BGK on projects fit with the local revitalisation programme and the City also has informal dialogue with the UDF to advise on fit with the local programmes.

INITIAL FOCUS OF THE LOCAL ACTION PLAN

It is expected that the focus of the Local Action Plan will be on the following areas:

- Opportunities to enhance the exchange of information and co-operation between the city of Poznań, Poznań Metropolis and Marshal's Office of the Wielkopolska Region in the field of future financial perspective 2014 - 2020 and possibilities of consulting on the way financial instruments are introduced
- Analysing the legal possibilities of creating a UDF with involvement of the city and surrounding municipalities (Poznań Metropolis) in the future 2014 - 2020 programming period, better aligning Investment Strategies moving forwards. This would not only ensure the economic sustainability of the submitted projects but also the regeneration effects that would be strictly linked with the Local Regeneration Plans
- Assessing the feasibility of creating of solid systemic basis for support of regeneration activities (for example creation of one commercial regeneration project that could invest its income in other regeneration projects)
- Enhancing co-operation with private investors (facing problems of implementation of PPP) and analysing ways in which greater private investment could be encouraged through using a financial instrument

ROLE AND COMPOSITION OF THE LOCAL SUPPORT GROUP

The Local Support Group has met once during the development phase and in addition most members of the Local Support Group participated in meetings with the Lead Expert and Lead Partner during the Development Phase. The Local Support Group will be chaired by the city of Poznań and members of Poznań Metropolis, representatives of Marshal's Office and other relevant stakeholders including project promoters and potential investors. The Local Support Group will meet at least quarterly and may also develop sub groups to address specific detailed issues or ideas that may arise during the Implementation Phase.

RIGA

MAIN CHARACTERISTICS OF THE CITY

Riga is the capital city of Latvia and its surrounding region is the largest among the Baltic countries with more than 1 million inhabitants. 47% of the inhabitants of Latvia are concentrated in the Riga region. The city itself lies on the Gulf of Riga, at the mouth of the river Daugava. The size of Riga and its economically dominant role has influenced and still influences the development of the surrounding centres.

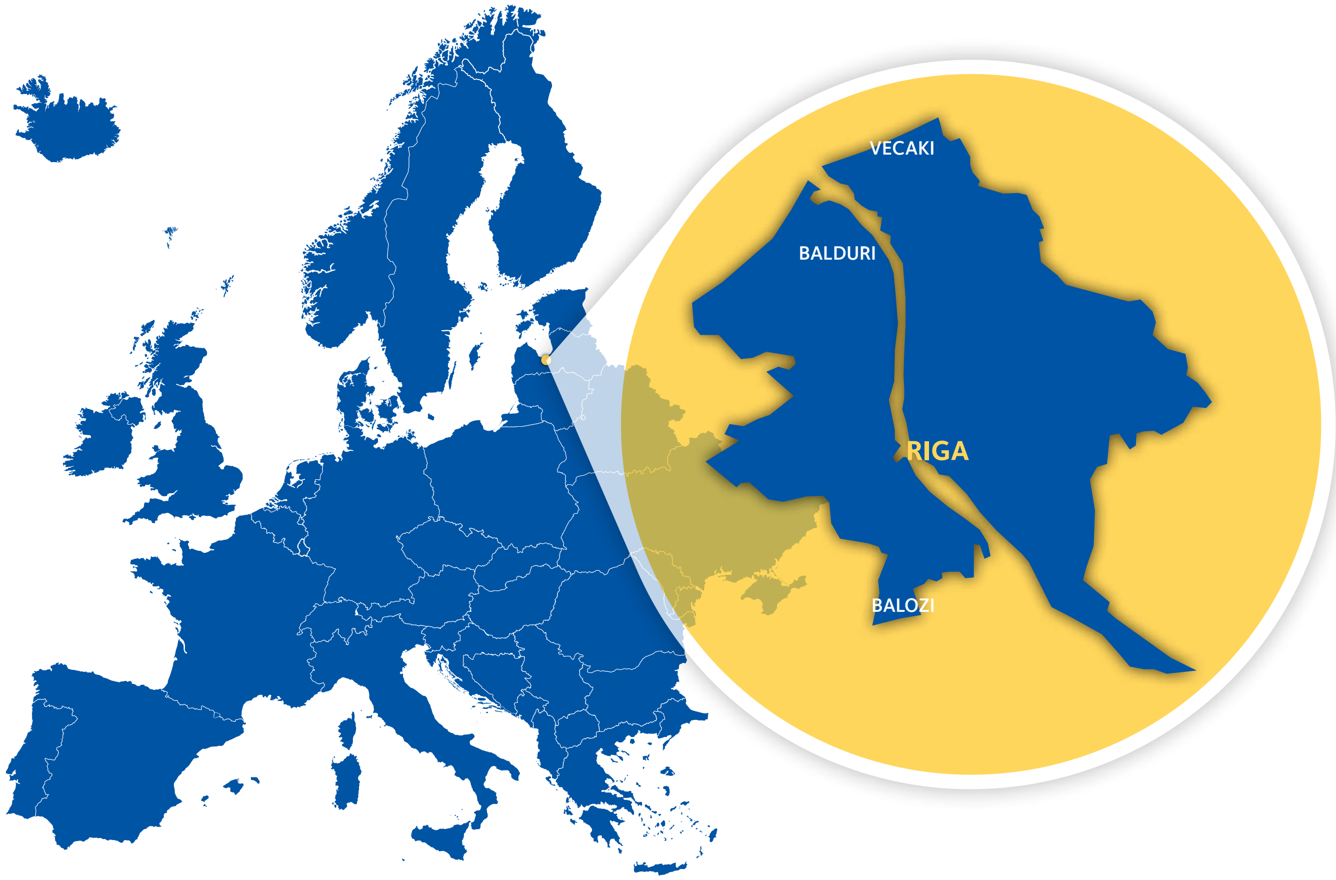
The Riga region is formed by 20 cities, in addition the city of Riga, these cities include Jūrmala city, a traditional summer resort, which is influenced by the development of Riga's economic zones. Tukums, Limbaži and Ogre play the role of local centres of the region. Sigulda is developing as a sport and tourism centre of national and international importance. The ports of Salacgriva and Skulte are historic ports of fishery and timber export. It is the wider Riga region, represented by the Riga Planning Authority who is participating as a partner in the CSI Europe Network.

The wider Riga planning region benefits from an excellent geographical position which together with historically formed infrastructure provides an advantage in the national and the Baltic Sea region's context. The region has easy access to the markets of Russia and other CIS countries, as well as the remainder of Europe.

Companies in Riga produce almost 60% of Latvia's total industrial production. The Gross Domestic Product of one inhabitant in the region of Riga is three times superior than in the other Latvian region Latgale, yet at the same time, it falls behind in comparison to other developed regions in Europe. The Riga region benefits from concentrated transport, power, environment, communication and information infrastructure which is of national importance.

Transport infrastructure is of special significance, the region is the node of cargo and passenger transport organization of national and international importance. Almost all important state motorcar roads, railway lines start in Riga; the international airport of Riga, several small airfields, Riga port and four small ports are situated in the region. Over a long period a relatively balanced dense transport net has been formed, which ensures the internal flow of cargo and passengers from and to the countryside areas, as well as their connections with Riga and cities of other districts in the region.

Riga Airport is playing an increasingly important role in international transport, it has developed into the biggest airport in the Baltic countries, and it complies with the international requirements and developed rapidly. Historically



the Riga port has been the driving force for the economic development of the region. In respect of cargo turnover, the port occupies second place in the country after the Ventspils port.

Three international pipelines cross the region, thus ensuring the flow of gas and oil products and the access to good resources, and providing preconditions for the modernization of the local infrastructure. The most important national site for producing energy as well as larger energy consumption sites are situated in the territories of the municipalities of Riga region.

CITY GOVERNANCE

MINISTRY OF REGIONAL DEVELOPMENT AND LOCAL GOVERNMENTS
Supervision authority

SOCIAL PARTNERS
State and local institutions,
non-governmental organizations,
entrepreneurs etc

RIGA PLANNING REGION

GENERAL MEETING
Chairmen of the 30 local governments

Establishment of Developemnt council
approval or correction of the statuses

DEVELOPMENT COUNCIL OF THE RIGA PLANNING REGION
14 deputies of the local governments

CHAIRMAN
Vice-Chairmen

Decision maker of Riga
Planning Region
Management of administration

ADMINISTRATION
Head
Employees of administration

Executive institution of Riga
Planning Region

COOPERATION COMMISSION
For cooperation with
institutions of the national level
Representatives of state
institutions, local governments
and planning region

The diagram above outlines the governance structure operating in the region, although Riga Planning Region is now overseen by the Ministry of Environmental Protection and Regional Development. Strategic leadership of Riga region is ensured by Riga Region Development Council having representatives of 30 local municipalities of the region, two cities: Riga and Jūrmala. The Ministry funds the administration of the Riga Planning Region. Co-financing to EU funded projects come from the Ministry of Finance but the Managing Authority of URBACT Programme is the Ministry of Environmental Protection and Regional Development.

Riga Planning Region Administration is a derived public entity that was established in 2006 in accordance with the functions determined by the Latvia's Regional Development Law. Riga Planning Region Administration seeks to ensure the planning and co-ordination of regional development, and co-operation between local governments and other State administrative institutions. It provides dedicated expertise in town planning, it facilitates the development of EU funded projects, approves city development plans and forms partnerships with cities to develop and deliver priority projects.

In accordance with the Law on Regional Development, Riga Planning Region Administration as an institution is a derived public entity/state institution, which is supervised by the Ministry of Regional Development and Local Government. The decision-making authority of Riga Planning Region Administration is Riga Planning Region Development Council (RPRDC), which is appointed at the meeting of all the heads of the local municipalities comprising this planning region from the municipal deputies. Riga Planning Region Council consists of 18 appointed members.

The region benefits from 3,2 Billion EUR of EU funding support for following programmes:

- Infrastructure for human capital;
- Fostering of accessibility of territories;
- Development of transport infrastructure;
- Environment for economic activities;
- Environment and energy efficient infrastructure;
- Polycentric development;

CHALLENGES AND OPPORTUNITIES

The Riga Planning Region Development Programme 2009-2013 sets out development guidelines for Riga region development and serves as basis for local development plans and outlines regional development priorities which are: to be an attractive place of residence with high living standards, to be a significant national and international transport intersection, to foster innovation and creativity, to develop and create high quality lifelong learning opportunities, to be a home for fast growing and export oriented enterprises, to have varied and internationally attractive tourism services, and to be an energy efficient region.

There are a number of key challenges to be addressed in order to realise the priorities outlined above. These challenges include improvements to the transportation system needed to enable more integration between cities and suburbs and the need to remediate and redevelop brownfield sites and former industrial zones. There are also challenges around the need to support the more sustainable development of urban settlements with improvements to infrastructure, including transportation and communication. This also includes works to avert flooding risks in and around urban areas and the development of inner water resources and small ports for transport, recreation, tourism in urban areas.

Alongside the physical challenges outlined, there are also financial challenges to overcome. It is understood that there are currently insufficient incentives for private investors to invest in public infrastructure and also potential legislative barriers, which is limiting private sector participation in a number of projects, and resulting in a greater need for public sector funding. Without private sector investment, less activity is therefore progressed, reducing the overall impact of the development programmes. In part, the lack of private engagement could be a consequence of the lack of sustainable PPP models for urban development projects in Latvia.

ROLE OF THE UDF

So far, Riga Planning Region has not yet had UDF in operation in the region. An evaluation study was carried out in partnership with the European Commission and European Investment Bank, which was completed in early 2011. Whilst this report recommended the establishment of a UDF, to date it is understood that no further work has been undertaken.

In future the Riga Planning Region could however:

- Support the development of a future UDF
- develop project applications for a UDF and/or other city development projects;
- ensure UDF strategy and projects coherence with national/regional development priorities;
- advocate political support to facilitate the development of a UDF and the resulting projects;
- ensure the appropriate involvement of national policy makers: the Ministry of Finance and the Ministry of Environmental Protection and Regional Development in the UDF development process and ensuing governance structures.
- RPA could co-ordinate project development in parallel with the UDF structure development to enable mature quick win projects to be taken forward by the UDF at an early stage in its lifecycle.

It is envisaged that a future UDF could potentially be taken forward by the Ministry of Environmental Protection and Regional Development, potentially in partnership with the state owned development bank or another bank, RPA itself does not have the functional possibility to become a UDF. A future UDF could provide additional financing for urban/regional development resources/funding mechanisms and energy efficiency retrofit and it is hoped it would provide a model for successful PPP working which could be replicated elsewhere in the region so as to encourage greater private sector investment in priority development programmes.

INITIAL FOCUS OF THE LOCAL ACTION PLAN

It is expected that the focus of the Local Action Plan may be on the following key areas:

- Understanding the implementation barriers to the establishment of a JESSICA fund in the Riga region.
- Consideration as to how best to involve private partners and secure private sector investment and develop successful PPP models
- Address any state aid issues arising and develop a greater relationship with the state owned bank
- Provide recommendations in respect of how best to interact and govern a future UDF, how best to involve other municipalities and get the best impact from private sector fund managers/banks who may perform the role of UDF manager.

ROLE AND COMPOSITION OF THE LOCAL SUPPORT GROUP

The Local Support Group has yet to meet, as Riga Planning Region is a new partner in the project. The Local Support Group will be chaired by Riga Planning Region and will be attended by representatives from the relevant municipalities, policy and funding advisors and other relevant stakeholders, including the state development bank. The Local Support Group will meet at least quarterly and may also develop sub groups to address specific detailed issues or ideas that may arise during the Implementation Phase.

SEVILLE

MAIN CHARACTERISTICS OF THE CITY

Seville is the capital of the Andalusia Region, Spain. It is situated on the plain of the River Guadalquivir with an average elevation of 7 metres (23ft) above de the sea level.

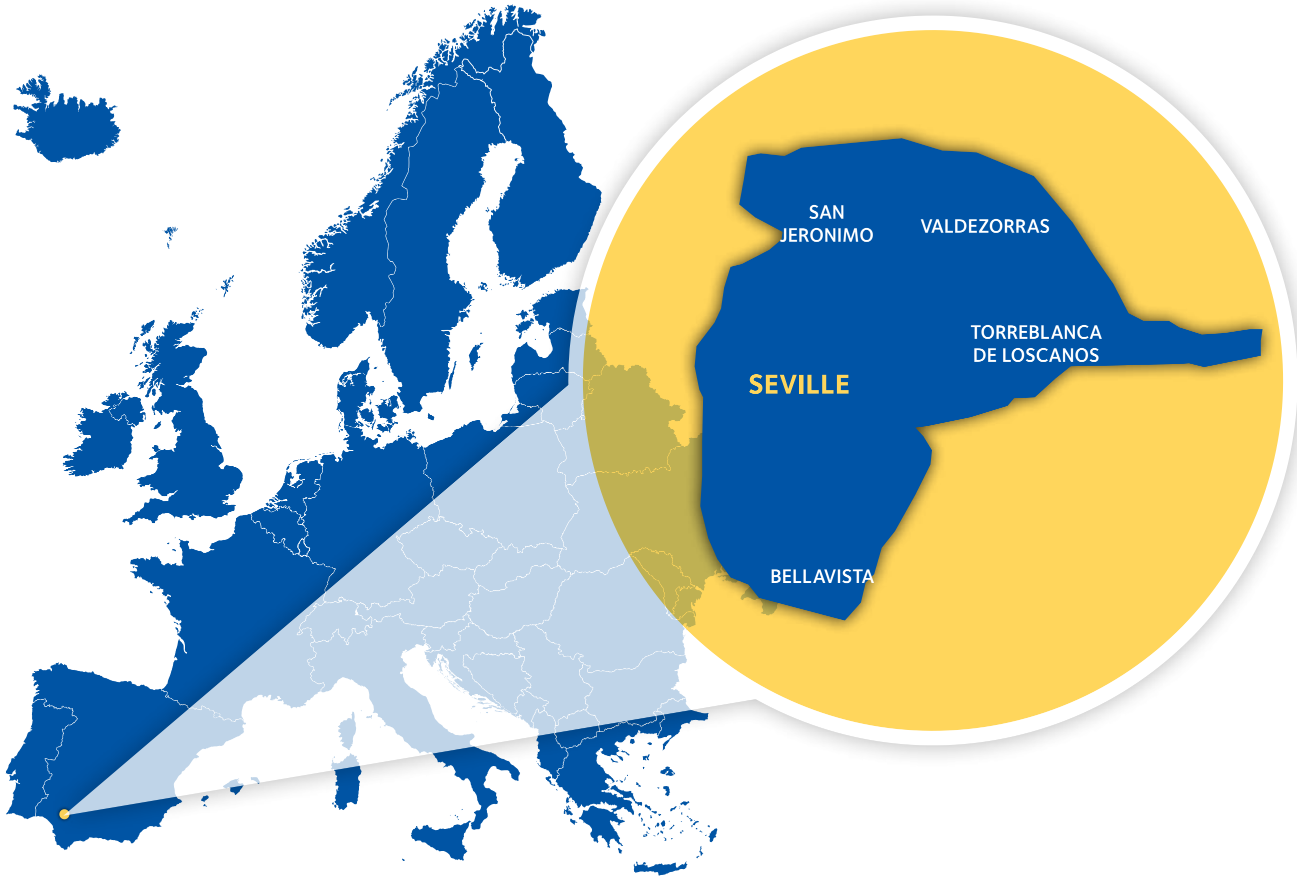
Seville is the fourth largest city of Spain with a municipal population of about 703,000 as of 2011, and a metropolitan population (including satellite towns) of about 1.2 million, making it the 31st in the European Union. Its old town is one of the three largest in Europe along with Venice and Genoa (covering almost four square kilometers). The old town includes three UNESCO World Heritage Sites and is the largest old city in Spain. The Seville harbor, located about 80 km from the Atlantic Ocean, is the only river port in Spain.

Seville was founded as the Roman city of Hispalis. In al-Andalus (Muslim Spain) the city was the capital of the Taifas which was incorporated into the Christian Kingdom of Castile under Ferdinand III. After the discovery of the Americas, Seville became one of the economic centers of the Spanish Empire as its port monopolized the trans-oceanic trade and wielded its power. It was the place of departure of the first circumnavigation of the Earth. Coinciding with the Baroque period of European history, the 17th century in Seville witnessed the most brilliant flowering of the city's culture, which was then followed by a gradual economic and demographic decline as navigation of the Guadalquivir River became increasingly difficult until finally the trade monopoly and its institutions were transferred to Cádiz.

Seville is approximately 2,200 years old. The passage of the various civilizations instrumental in its growth has left the city with a distinct personality, and a large and well-preserved historical centre. Although it has a strong medieval, renaissance and baroque heritage, the city was greatly influenced by Arabic culture. Many operas have been set in the city, including those by such composers as Mozart, (The Marriage of Figaro, and Don Giovanni) and Rossini (The Barber of Seville)

The University of Seville and the University Pablo de Olavide are important centers of learning in western Andalusia as they offer a wide range of academic courses. The economy of Seville is dominated by the service sector, representing 83.5% of employment and centered on tourism, trade and financial services. Industry also still plays an important role contributing up to 28% of the economic output of the city.

The city has the only inland port in Spain. The port has undergone reorganization and has seen its annual tonnage rise, recently to 5.3 million tons of goods in 2006. Seville, and its surrounding province, also benefit from a number



of large industrial parks and technology centers: the Parque Científico Tecnológico Sevilla Tecnopolis clusters together various companies, research centers and university departments directed towards the development of new technologies; the Parque Tecnológico y Aeronáutico Aerópolis is focused on the aircraft industry.

CITY GOVERNANCE

The Plenary formed by the Mayor and Deputy Mayors, is the highest level of political representation of the citizens in the municipal government. Its functions include the control and supervision of the governing bodies, the vote on the motion to censure the mayor and the issue of trust, the approval and modification of municipal ordinances and regulations, agreements on the delimitation and alteration of the municipal term, the approval of budgets, the division of the municipality into districts and the determination and regulation of the organs of the districts and the powers of its representative bodies.

City Areas and Delegations

- Delegation of Institutional Relations
- Town Planning, Environment and Parks and Gardens
- Area of Finance and Public Administration
- Department of Employment, Economy, Major Festivals and **Tourism**
- Zone Safety and Mobility
- Department of Culture, Education, Sports and Youth
- Area of Family, Social Affairs and Special Areas
- Area of Participation and Coordination Districts

Organizational units that report directly to City Hall

- Mayor's Cabinet
- Mayor's Office Service
- Communications Office

There are also other public companies that play a key role in the governance of the City, these are: CEMS: (EMASESA-Water and Wastewater, LIPASAM-Cleaning and Waste, TUSSAM-Urban transport and EMVISESA-Municipal Housing)

CHALLENGES AND OPPORTUNITIES

A key opportunity within the City is the development of smart and sustainable technology to improve resource efficiency. Seville aims through a number of projects to achieve an exemplar management model for heritage cities.

Seville's strategy hopes to result in the efficient use of resources, better demand management, the creation of new markets, improved planning of the city and, in short, a better quality of life for citizens. Linked to this programme, the city is also implementing e-government common to all public enterprises and offices of City Hall.

All government services will be hopefully delivered on an electronic basis where possible. Examples of the project initiatives underway include projects to improve energy efficiency in buildings, new energy efficient lighting systems for public buildings and spaces, the roll out of electric vehicles and pollution control measures. These smart initiatives are also assisting the city in addressing draught problems due to its climate, by improving water usage.

Another key opportunity is the SVQ15 Joint Venture between ETICOM (Cluster of Technology Companies) and the City, which comprises several initiatives, including the attraction of new ITC companies into an area north of the city which benefits from strong infrastructure but is currently under occupied.

Further development opportunities can be found in the historic centre of the city, where attempts are underway to secure private sector investment to redevelop the market in an energy efficient way as a health and cultural centre with also commercial uses including a call centre. Land values have however fallen substantially and low land values are acting as a barrier to development.

ROLE OF THE UDF

Seville hopes that the two UDFs that operate within the Andalusia region, will invest in the city's urban development and support those projects identified within its development strategies that otherwise would not be viable.

The two Urban Development Funds have each been awarded 40m Euro to invest in Andalusia, with one UDF providing debt finance and one UDF providing equity investment. The first UDF is managed by BBVA and the second UDF is managed by Ahorro Corporation, a Financing institution, owned by Spanish banks which provides asset management and financial services.

The UDFs are looking at a wide range of urban development projects – car parks, rehabilitation of historic buildings, infrastructure, museums, redevelopment of brownfield sites. The Ahorro UDF has three advanced projects in its pipeline at the moment. As an average the UDF is mostly funding 70% of the project costs as there is such a lack of other financing in the development market at the moment, particularly private finance.

The UDFs are looking to spread their investments through cities, 60% of their resources are to be allocated in big cities and 40% in smaller cities. Whilst this ensures distribution of the resource, it can limit the UDFs ability to support the best projects. It is also understood that whilst there are considerable project ideas, limited available public resources have constrained the development of these ideas into mature investable projects.

There is arguably an opportunity for the city and the UDF to better understand each others requirements, so that they may be able to better develop suitable projects that both to address the city's priorities and help develop the UDF pipeline.

INITIAL FOCUS OF THE LOCAL ACTION PLAN

It is envisaged that the initial focus will be on the following topics:

- Improving city knowledge and understanding of the mechanism
- Gaining greater clarification of UDF needs and aligning UDF strategy with the city strategy
- Developing a project pipeline development for 2014 +
- Reviewing case studies of good exemplar projects
- Developing marketing ideas to raising the profile of the project opportunity and the funding opportunity.
- Accelerating delivery of the current programme - injecting dynamism and addressing barriers where relevant

ROLE AND COMPOSITION OF THE LOCAL SUPPORT GROUP

There are already two working groups established in the city looking at future ERDF funding opportunities, one of these groups is looking at the ITI concept and is chaired by the Mayor. It is intended that the CSI LSG will either be an expanded version of that group, or act as a sub group to that group. Attendees will comprise representatives from the Environment, Employment, Tourism, Economic Development departments, CEMS, Planning office, GMU, UDFs, and private sector representatives. Where possible Seville will try to organise small meetings with virtual wider input to ensure meetings most productive.

THE HAGUE

MAIN CHARACTERISTICS OF THE CITY

The Hague is situated in the west of the Netherlands and has 500.000 inhabitants. It is the third largest city of the Netherlands, after Amsterdam and Rotterdam.

The Hague is a 'green city by the sea' with 11 kilometres of coastline and around one-third of the city is green space. The Hague is the largest Dutch city on the North Sea and includes two distinct beach resorts. The main beach resort Scheveningen, in the northwestern part of the city, is a popular destination for tourists as well as for inhabitants. With 10 million visitors a year, it is the most popular beach town in the Benelux area.

The Hague is the seat of the Dutch government and as the 'City of Peace and Justice' it is a base to nearly every international organisation in the field of peaceful administration. From The Hague, many people are working towards a peaceful and just world, in which conflicts are not settled on the battlefield, but in courts, without violence and not at the expense of innocent people.

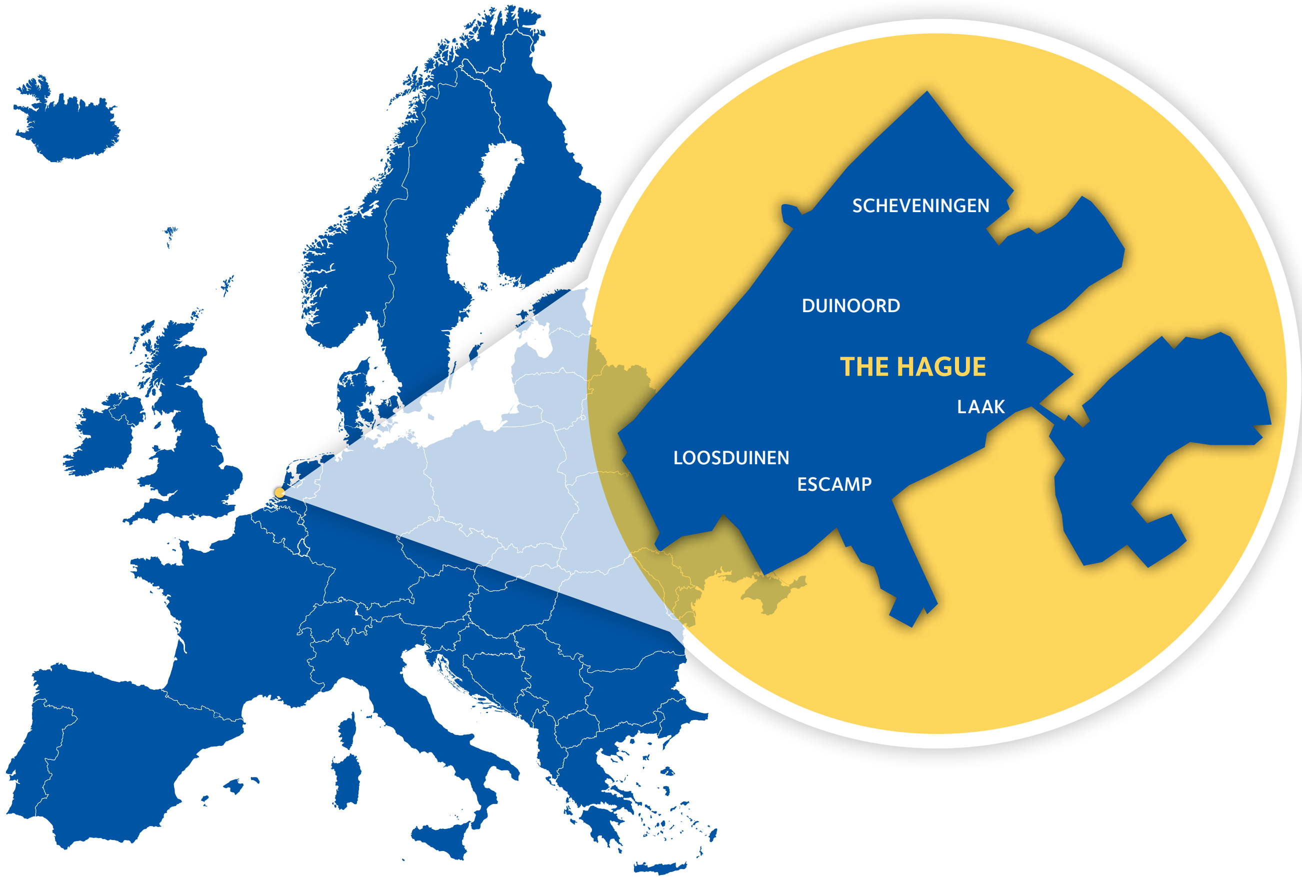
The Peace Palace in The Hague, with the International Court of Justice and Permanent Court of Arbitration, is the icon of its international position. There are over 130 international organisations in The Hague among which Eurojust, Europol and the Organisation for the Prohibition of Chemical Weapons (OPCW). The Hague is the United Nation's second city, after New York.

The unique nature of the city also attracts an increasing number of companies and institutions in the field of safety and innovation. The Hague actively promotes public and private collaboration and innovation in the field of national and international security.

In addition to the organisations that operate in the area of peace and justice, the region has over 300 international companies. Shell, AEGON and KPN all have their head offices in the city and are among the largest. The city has business clusters in the sectors Energy, ICT and Business Services. There are some 36,000 business in The Hague, employing over 260,000 people, 50% of whom in small and medium enterprises.

The Hague shares an airport with Rotterdam, however with several direct trains per hour from Amsterdam Schiphol airport, most people travelling by air to The Hague use Schiphol airport. The City also benefits from strong rail connections to Rotterdam, Utrecht and Brussels.

The Hague originally dates back to around 1230, where it was a hunting residence for Floris IV, Count of Holland. It remained classified as a village until 1806, when Louis Napoleon King of the Netherlands declared it the third city. Later in the 19th Century, the City became home to Royal Residences and subsequently a number of Embassies located there, giving rise to the City's international role.



CITY GOVERNANCE

The Netherlands European Regional Development Fund (ERDF) Operational Programme 2007-2013[1] divides into four regions, which includes the West-Netherlands. The OP "Opportunities for West" covers the four provinces in the West Netherlands region (Noord-Holland, Zuid-Holland, Utrecht and Flevoland, the so-called "P4") and the four big cities of Amsterdam, Rotterdam, The Hague and Utrecht (the so called "G4"). Responsibilities for implementing this Operational Programme have partly been delegated to the G4.

Rotterdam acts as the Managing Authority for "Opportunities for West" Programma. The ERDF Operational Programme – ''Opportunities for the West'' is allocated 1/3 on a sub delegated basis to The Hague, Rotterdam, Amsterdam and Utrecht and the remaining 2/3s is allocation based on the EC formula across the four cities (each city still has an allocation even if no delegation) on a non delegated basis and the remaining other four provinces.

Each city has prepared a 'Grant Plan' setting out how they will invest the delegated resources. ERDF grant projects are approved by Mayor and aldermen from the city after advisory from a Steering Group of City Hall Directors and partners from education and SME-sector– reflecting various policy interests.

CHALLENGES AND OPPORTUNITIES

An attractive investment climate is of crucial importance for the city's economy and the performance of companies. The Hague wants to promote and support entrepreneurs in providing better services and providing suitable business locations. SMEs make up 99% of companies in The Hague and account for ca. 50% of employment. It is hence important for the city to create sufficient space for SMEs. Research has shown that there is a lack of small scale units in the next 5 years (private practices, showrooms, live-work units etc). Some of these types of existing units (not suitable at present) should be transformed into usable units.

It is understood that in the Netherlands a significant amount of urban regeneration had previously been funded by land receipts generated from the disposal of publically owned assets. Land values have since fallen however, reducing the surpluses available and forcing the exploration of other means of public intervention. There is therefore a reducing pool of available public funds for investment in urban development.

The lack of bank finance remains a key challenge, particularly in respect of more long term development proposals, which do not offer banks the ability to exit quickly with clearer obvious returns.

There is concern therefore that there are insufficient funds available to achieve national policy goals in urban development and it is hoped that JESSICA may prove a potential means of addressing some of this concern.

To invest in strengthening the competitiveness of the region and stimulating employment growth, The Hague has set the following objectives:

- Employing better the economic potential of being the international city of "peace and justice" (attracting companies, institutions and creating "spin-offs" from these institutions);

- Creating sufficient space for existing and new companies by regenerating and where possible creating industrial zones;
- Supporting start ups and existing entrepreneurs with knowledge and access to finance;
- Revitalising the inner city for residents and visitors by investing in, amongst other things, "liveability" and services;
- Creating and initiating employment and internships for unemployed and youth, including improving the connection between education and the labour market;
- Developing a sustainable and vital city focused on mobility and accessibility.

In addition to the priorities established in the Operational Programme, The Hague Climate Plan[2] describes the objectives and strategy for the long term (2040), the medium term (2020) and the short term (2012). The objective for the long term is that the city will be climate neutral and climate resistant by 2040. The municipality of The Hague also has the ambition to make the city climate-resistant (adaptation). Adaptation to climate change is the process in which societies reduce their susceptibility to climate change or benefit from the opportunities offered by a changing climate.

ROLE OF THE UDF

The JESSICA funds form part of the sub delegated elements of the Operational Programme in both The Hague and Rotterdam.

In terms of The Hague's proposed UDFs - the Urban and Economic UDF has been allocated 2m EURO of ERDF and 2.860m EURO of match funding from The Hague and the Energy UDF has been allocated 2m EURO of ERDF (including national march funding) and 2m of match funding from The Hague.

Rotterdam has allocated 6m EURO to its proposed UDF. A procurement process to select UDF Managers is currently underway.

It is hoped that the establishment of JESSICA in The Hague will provide much need development equity and debt finance to enable projects that cannot currently be financed to proceed. The investments of the Urban and Economic UDF should focus on creating available and suitable business accommodation for SMEs, renewal of retail space and creating mix-use developments (living, working, learning and experiencing). The investment of the Energy UDF should support the realisation of the Climate Action Plan.

The investments to be made by the Urban and Economic UDF will contribute to the objectives of the OP "Opportunities for West" by investing in retail space as follows:

- Creating sufficient available space for existing and start-up companies by regenerating existing industrial buildings and or sites
- Revitalising inner cities for inhabitants and visitors by investing in "liveability" and the provision of services.

Indirectly the investments will also contribute to:

- Supporting start-ups and existing entrepreneurs with knowledge sharing and financial means; and
- Creating jobs and traineeships for young people and unemployed, including improving the connection between education and the labour market.

The Energy UDF is expected to focus primarily on investments for improving and expanding district heating and cooling networks. These networks will be fed by geothermal energy, biomass power plants and/or seawater stations.

Besides this objective, the Energy UDF is expected to focus inter alia on the connection of the International Zone to sustainable energy supply. This shall provide The Hague with a competitive advantage to attract international institutions and companies in relation to the "City of Peace and Justice", like the international criminal court.

INITIAL FOCUS OF THE LOCAL ACTION PLAN

It is expected that the focus of the Local Action Plan may be on the following key areas:

- Assessing the risks for a City to participate in a JESSICA fund.
- Considering how best to involve private partners and secure private sector investment, including the role of state aid.
- Assessing the effectiveness of the current and proposed regulatory background – including the extent to which ERDF obligations should be passed onto final beneficiaries.
- Recommendations as to potential off the shelf models
- Recommendations in respect of governance and how best to involve other municipalities and get the best impact from private sector fund managers.

ROLE AND COMPOSITION OF THE LOCAL SUPPORT GROUP

The Local Support Group has met once during the development phase and in addition most members of the Local Support Group participated in meetings with the Lead Expert and Lead Partner during the Development Phase. The Local Support Group will be chaired by the Deputy Mayor responsible for Urban Regeneration and will be attended by Rotterdam representatives, policy and funding advisors and and other relevant stakeholders. The Local Support Group will meet at least quarterly and may also develop sub groups to address specific detailed issues or ideas that may arise during the Implementation Phase.

[1] See http://ec.europa.eu/regional_policy/country/prordn/search.cfm?gv_pay=NL&gv_reg=ALL&gv_obj=ALL&gv_the=ALL&lan=EN&gv_per=2

[2] See http://www.denhaag.nl/en/residents/nature-and-environment/to/The-Hagues-Climate-Plan.htm

SYNTHESIS

INTRODUCTION

Cities within the CSI Europe partnership have a range of different experiences in implementing JESSICA, but a number of common issues have emerged from the Baseline Study work and partner visits. These issues have been grouped into five key themes identified for further exploration and analysis through the Implementation Phase. The findings and recommendations of each of the themes are considered relevant for the Local Support Groups, the Network as a whole, and wider stakeholders such as the European Commission.

To maximise the exchange of learning, best practice and ideas across the partnership, each partner has been allocated to one of the first four themes and paired with another city or cities (depending on the breadth of the theme). Themes have been allocated based upon each city's interest, knowledge and understanding. The final theme will be addressed by the partnership as a whole, but managed by Manchester as Lead Partner, and it is intended that this work will follow the first four themes. Partner cities will test and reflect the findings of each theme at a local level through their Local Support Groups.

The themes have been allocated as follows:

THEME	CITY LEADS
UDF/City Alignment	Poznań, Lille Métropole and Seville
State Aid and Private Investment	Porto, Manchester and Riga
Regulatory Framework	The Hague and Malmö
Technical Assistance	Ancona and Leipzig
Standardised Urban Fund Models	Manchester/All

WORKPLAN

The work plan of implementation phase will be broadly divided into three phases: research, analysis and dissemination.

PHASE 1 - Research (February 2013 - April 2013)

Theme leads will initially build upon the information provided in the baseline study to further research their respective theme. This will ensure that each partner city and their supporting LSG have the opportunity to develop their own learning base in the chosen topic, recognising of course that five of the partners are relatively new to the project and may not have direct experience of the topic in question.

This period will also allow partners the opportunity to reacquaint themselves with the project and energise the LSGs, given the three-month time lag between the submission of the final application and the decision of the URBACT PMC. During this period the partners will, through their LSG, each develop their Local Action Plan, which should identify the local priorities for action, in addition to embedding the key themes in the LSG's work.

Theme Leads will be expected to hold at least monthly video conferences or equivalents to discuss progress and findings and hold quarterly LSGs. During this period, theme leads will also develop their work plan for the analysis phase. At the end of April 2013, the partnership will hold the first meeting of the Implementation Phase. At this meeting, each partner will present details of their Local Action Plan and theme leads will present the outputs from their research and their proposed work plan for the key theme for the next phase.

PHASE 2 - Analysis (May 2013 - June 2014)

The second phase of the theme work programme will commence immediately following the first meeting. The second phase will be the longest of the three phases and will run until June 2014. The focus of this phase will be on the development of proposals/model approaches to address the issues raised in each subtheme as well as implementing the Local Action Plans. During this period, partners will be expected to continue to hold quarterly LSGs to analyse the issues and develop and test proposals. Theme leads will be expected to hold regular bilateral videoconferences or equivalent to share learning experiences and constructively challenge each other's inputs into the proposals.

The partnership as a whole will come together four times during this phase, with each meeting focusing on one theme and the implications of the findings and proposals on the final theme – standardised fund models. By allowing the partnership to collectively focus on one theme in this way, the partnership as a whole will have the opportunity to develop a much greater understanding of the specific detail of each theme. It will also allow the theme leads to benefit from peer review of the findings and recommendations to help further refine their thinking.

Phase 3 – Dissemination (July 2014 – March 2015)

The final phase of the work programme will focus on building on the findings of each theme to develop standardised fund models for the future 2014–2020 Programming Period and then disseminating and publicising the findings, conclusions and recommendations of the project. A specific transnational seminar will be held three months after the start of this phase. This seminar will focus on pulling together the recommendations from each of the previous four thematic seminars and presenting possible standardised fund models for replication in cities.

Following this seminar, partners will then organise a local conference to present the conclusions of the project and the recommendations of their Local Action Plans. Local Action Plans will be expected as a minimum to propose how the standardised fund models could be embedded within the relevant city structure. A final partnership plus external attendees conference will be held towards the end of the remaining period March 2015. Further dissemination events will be planned as appropriate and the final reports will be prepared and launched.

The themes and subthemes are explained in the following sections.

THEME – UDF/CITY ALIGNMENT

THEME	SUBTHEMES
UDF/City Alignment	• How can Investment Strategies be best aligned? • How can cities be most effectively involved in fund structures, project identification and decision-making? • How can UDFs be most effectively embedded within the delivery of city urban development? • How can the delivery of priority urban projects be improved ensuring alignment with economic priorities and delivering high-quality urban environments? • What are the most appropriate types of projects for these types of financing mechanism? • What are the possible forms of financing for the mechanism?

This theme will explore the extent to which the investment strategy of financial instruments such as Urban Development Funds (UDF) can be aligned with the urban development strategies and community-led development strategies of the cities in the area.

The partner cities in the Network all have clear strategies for regeneration that reflect the particular conditions in their area and the city's priorities for action. The strategies, which have been developed through the city's democratic structures, often in consultation with local businesses and residents, provide a framework that will guide action and investment by the city in the future. These strategies are often further supplemented by community-led development strategies prepared by local action groups. As financial instruments become embedded in future ERDF and other funding mechanisms, it is essential that the UDFs active in a city's area have investment strategies aligned with the city's and the relevant local action group's priorities.

The Network will explore how cities can ensure alignment between UDF and city strategies through UDF governance mechanisms that ensure cities have the ability to influence and guide the funds' activities. This would include city involvement in the development of a fund's overall investment strategy, development of project pipeline, identification of complementary financing, and utilisation of the fund's resources in conjunction with other public funds, including a grant where necessary.

The experience of partner cities to date has been mixed. The baseline study identifies how, to date, much of the activity has been directed towards the establishment of UDFs rather than the investment into projects. Furthermore, in the current economic climate demand for the funding is relatively low. As a result, funds are investing in an opportunistic way, supporting projects that are sufficiently advanced and capable of supporting the investment. This has meant that there has sometimes been limited dialogue between cities and funds and this has contributed towards a lack of awareness and understanding between the parties of their respective requirements. The Network will seek to consider how this can be addressed, recognising that if financial instruments are to become part of mainstream public funding for urban development, it is essential that the governance arrangements reflect the public interest, as identified in the city strategies, as well as the traditional risk and return considerations of investment funds.

The work of the Network will look at how to ensure cities can add value to the governance of UDFs in areas including:

- **Future Integrated Plans for Sustainable Urban Development** – initiatives such as Smart Cities and Smart Specialisation Strategies for Regional Investment, place cities at the centre of innovation, providing strategic leadership to guide future investment of public funds.
- **Identification of priority projects** – as demand increases it will be vital that financial instruments utilise their funds to support those priority projects that will have the greatest impact on urban development.
- **Securing policy priorities** – using the UDFs to secure wider policy priorities, including high-quality urban development, public realm and other social benefits.
- **Use of subcommercial investments** – as state-aid compliant frameworks are developed to enable UDFs to make subcommercial investments, cities can provide leadership to guide how and when such support can be deployed by funds.

The partner visits have identified a range of different governance structures for funds established, or being established in the partner cities. These range from national or regional funds under the management of public and private sector banks and other financial institutions to a fund wholly controlled by a single city. The range of different governance arrangements active within the Network will allow experience to be shared through the implementation phase, with the transnational learning being cascaded down through the LSGs.

THEME – TECHNICAL ASSISTANCE

THEME	SUBTHEMES
Technical Assistance	• How can cities better stimulate and more effectively support project pipeline development? • Is there a need for a linked city staff training programme to support staff development in using these kinds of instruments? • Is there a need for a Cities/UDF TA programme to support city urban development priority development?

The majority of public sector intervention in urban development has historically been funded by grant support from a mixture of European and national funding sources. As a result, cities and their public sector partners have developed strong expertise in grant regimes, grant appraisal and information requirements, the relevant regulations, monitoring requirements and state-aid considerations. However, reducing public sector budgets has limited the availability of grant resource increasing the need to use more financially sustainable forms of public intervention, including through the use of financial instruments in the future.

While the management and appraisal of grant resource provides an excellent grounding for the development and management of financial instruments, financial instruments are more complex, have different regulations and demand different skills and expertise. Aside from the structural and regulatory differences, financial instruments require public servants to be able to take a dual approach and to be able to develop and assess projects that not only deliver regeneration objectives and benefits but that are also capable of generating a financial return.

During the partner visits, a number of partner cities have expressed a need to increase their knowledge and understanding of financial instruments. This is to achieve the following aims:

- **To increase knowledge and understanding of fund managers' project requirements** – so as to enable cities to play a greater role in developing suitable investment propositions for fund managers. If public servants better understand the information requirements and types of projects fund managers are seeking, this will enable public servants to better 'feed' UDF pipelines, increasing the UDF pipeline and also improving the alignment between the UDF and the city's own investment strategies and fund impact.
- T**o enable public servants to better understand the opportunities and risks of participating in JESSICA-type financial instruments**, hopefully increasing the take-up of financial instruments by cities. In some instances public servants have insufficient information and understanding to be able to assess how a city should best engage in the development of financial instruments. JESSICA-type instruments are quite complex and novel and the lack of completed case studies and sometimes vague regulations can lead to a perception that the instruments are unproven and risky. This can result in cities taking a more passive role in the financial instrument and arguably not always optimising the potential opportunities presented by the funds.

The availability of grants has also proved essential in enabling cities to develop capital regeneration programmes, to test the feasibility of concepts, prepare masterplans and planning applications, prepare remediation strategies, designs, costs, undertake market assessments and ultimately develop investable propositions. Therefore limited grant budgets also often equate to a lack of public resources available to fund the predevelopment costs of public and private sponsored projects. This type of expenditure is necessary to work up project ideas into a sufficiently mature state so they would withstand the information requirements and due diligence appraisals of fund managers. Without budget support for the activity, public sector priority projects are overlooked in favour of more advanced and investment-ready proposals.

As predevelopment expenditure is effectively risk capital, private developers also are often unwilling to commit expenditure to work up projects where there is uncertainty around the likely funding structure and sources for the ensuing main project. Without mature project proposals to review and provide assurance around deliverability and viability, funders are unable to provide the comfort developers seek prior to investing funds to further develop projects. This results in progress stalling, or at best progress being slowed down, with projects being developed iteratively to minimise the developer's exposure.

Fund managers operating in some partner cities have cited that there is no shortage of project ideas for their consideration, but there is often a lack of defined and mature projects that are investment-ready. It would also appear that this is even more of a prevalent issue in smaller cities, where resources can be even more constrained.

To conclude, this theme will consider ways in which public servants' knowledge and understanding of JESSICA-type financial instruments could be expanded to address the issues identified and support the more effective engagement of cities in Urban Development Funds. It will also consider the feasibility of developing a technical assistance fund to support city and UDF project pipeline development, so as to accelerate delivery progress and impact in preparation for the next Programming Period.

THEME – STATE AID AND PRIVATE INVESTMENT

THEME	SUBTHEMES
State Aid/Levering Private Investment	• How applicable is the NWUIF state aid decision to other cities? • To what extent is there a need for an EU-wide exemption (linked to off-the-shelf theme)? • What are the requirements for private investors and how can private investment be best secured? • How would greater investment flexibilities encourage greater city involvement?

Both Manchester and Seville benefit from the first JESSICA state aid decisions so far secured from the European Commission[1]. The decisions follow a very similar format and the notifications were prepared with input and support from the European Investment Bank. It is understood that these decisions are subsequently being reviewed by other Member States to ascertain whether a similar approach to state aid and JESSICA would be beneficial to them. Further similar notifications are expected to follow shortly during the latter part of 2012.

The state aid decisions provide significant advantages to the JESSICA mechanism, which are listed as follows:

- By permitting the provision of debt and equity on subcommercial terms when certain conditions are met, the state aid decisions enable UDF investment to be used to help overcome viability issues, broadening the scope of projects that could be potentially considered by UDF managers for investment.
- UDFs are consequently able to address a wider range of market failures. The impact and regenerative benefit of UDFs is as a result potentially greater. In this respect a trade-off between socioeconomic and financial returns is possible.
- The more flexible deployment of the UDF investment in the manner permitted by the decisions should engender greater confidence from developers and other investors, encouraging a potentially greater and earlier level of development than may have been the case. The possibility of fund level private sector investment is also increased.
- The ability to include grant funding and/or align the UDFs to existing sources of grant funding is significant. The ability of UDFs to combine both grant and repayable investments in projects ought, subject to the right incentives, result in more efficient use of public sector resources.

It is understood that although each notification is following a very similar format to the UK and Spanish decisions, to date an EU-wide JESSICA state aid exemption based upon similar conditions to the existing decisions has not been progressed. From the partner visits, state aid is clearly an issue and partners would appear in some circumstances to require greater clarity and flexibility. Given the potential advantages provided by the existing state aid decisions, there is merit in exploring the feasibility of such an EU-wide exemption as a theme of the Network. This theme will therefore consider in more detail the need and justification for such an EU-wide exemption.

The state aid decisions are also significant in that they enable UDFs to offer preferential funding terms to potential investors at fund level. A number of partner cities have raised the need to attract a greater level of private investment to support their regeneration plans and programmes. Urban regeneration by its very nature can be typically viewed by potential investors as being high risk, with low return levels, often with long-term payback periods. The level of uncertainty around risk and return often dissuades investors or leads to investors overpricing risk into their investment terms, rendering the costs of finance unaffordable.

The fair rate return methodology included within the state aid decisions enables the UDFs to adjust their own return levels to enable private investors to secure a preferential or priority return where a project would not otherwise be viable if funded on a purely commercial basis. The presence of a subordinated funder within a fund or project capital structure reduces the risk presented to the private investor and hopefully encourages them to invest where they might not otherwise. This theme will assess the benefits of this approach and it will also consider other methodologies for securing greater private investment alongside or in UDF activity.

[1] http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3_SA_32835 and http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3_SA_32147

THEME – REGULATORY FRAMEWORK

THEME	SUBTHEMES
Regulatory Framework	• The lack of clarity in the current regulations dissuades participants • There is also a lack of clarity on the ERDF risks a city may be exposed to in participating in such structures • What is the potential of the mechanism to combine ESF, ERDF and other relevant sources of funding under a more integrated, multi-fund approach, and what are the regulatory implications? • Learning from current implementation experience among partners will be collected and shared • Findings relevant for the next Programming Period.

This theme will aim to increase knowledge and understanding of the regulations that affect financial instruments. It will also seek to track and influence the developing regulations and guidance for the use of financial instruments in the next programme.

The JESSICA financial instruments that have been established in the current programme have all had to address the challenge of implementing investment funds within the Structural Fund regulations, which have been developed to enable funds to be provided by way of grant rather than loan. This has led to considerable uncertainty about how UDFs can ensure that their investment operations are compliant with the Structural Fund regulations.

The regulatory position was in part clarified by the 'Guidance Note on Financial Engineering Instruments under Article 44 of Council regulation (EC) No 1083/2006' issued by COCOF on 21 February 2011. The guidance provided promoters of funds and Managing Authorities with some clarification of a number of key issues regarding the setting up and implementation of funds.

It is expected that the next programme will provide a clear set of rules that build on existing guidance which captures synergies with other forms of support such as grants, and provides a clear framework for use of financial instruments to support urban development and other priorities. The Network will seek to respond to the developing regulatory framework, sharing experience through the transnational work to enable the cities to support and develop existing and new UDFs to use financial instruments to their full potential.

In addition, a number of partner cities are seeking to develop innovative approaches to integrating different funding sources into an integrated programme. This may be through the development of Integrated Territorial Investment (ITI) or Community Led Development strategies or other innovative approaches, which could see the UDF blending different sources of funding such as ERDF and ESF at city level. This work will include consideration of social impact investment-type approaches where investment that targets proactive early support for members of the community most in need is funded through financial instruments that are in turn supported by monetary savings resulting from a reduction in demand for 'acute' public services in the future.

The Network will also seek to consider how local regulation can influence the operation of financial instruments in cities. This will include where regulation prevents UDFs being established, fiscal controls that limit the extent to which cities can directly benefit from financial instruments and planning and other regulations that impact on projects supported by UDFs.

In addition to developing cities' knowledge, sharing experience and building understanding of the risks associated with financial instruments, the Network will seek, through its Communication and Dissemination strategy to act as a voice for cities in the development of regulations and associated guidance for the next programme.

THEME – ‘STANDARDISED FUND MODELS’

THEME	SUBTHEMES
Future models for investment	• This theme will follow the earlier themes and reflect findings and conclusions • It will build on the learning and best practice established through the themes and LSGs and make recommendations for off-the-shelf models for implementation in the next programming period

The draft Common Provisions regulation for the next programme of regional aid propose the development of standardised fund models that Managing Authorities will be able to utilise to establish financial instruments in their area. Such models will be one option available for Managing Authorities in addition to using existing UDFs and establishing further tailored new models.

It is anticipated that the Network's activity, which will seek to address the barriers to using financial instruments, will provide insights and solutions that should be reflected in the development of standard models in the future. This theme will therefore be considered throughout the implementation phase.

As each theme reports its findings the implications for future models will be considered. At each transnational conference the findings of the theme leads will be used to develop a series of recommendations for future operation of financial instruments that can be developed further at Local Support Groups and inform the development of this final theme.

The experience of the partner cities to date have already illustrated that different models will be appropriate for different projects. The Network will explore models for financial instruments that are both independent legal entities and separate blocks of finance within an existing institution. It will also look at models to provide a range of sectoral products such as investment finance for commercial development, infrastructure funds for long-term investment and funds targeted at smaller investment to businesses in renewal areas. These different models will each have their own specific characteristics and different solutions may be required in practice to achieve similar priorities in relation to the other key themes.

This theme will also be an important part of the Communication and Dissemination Strategy for the Network, forming the basis of its engagement with the Commission, Managing Authorities and other key factors to influence the future shape and utilisation of financial instruments for cities. At partner level it is hoped that through the work plans of the LSGs and the transnational exchanges of the Network, partners will be able to test the different models and the applicability and feasibility for their own cities.

TIMELINE

The table below outlines the indicative timeline of the phases of work and main transnational Network events:

DATE	ACTIVITY	LOCATION
February 2013	Research phase commences	N/A
April 2013	Conclusion of research phase and Implementation Kick Off Meeting	Ancona
May 2013	Analysis phase commences	N/A
June/July 2013	Theme Seminar – Regulation	The Hague
November 2013	Theme Seminar – Technical Assistance	Leipzig
April 2014 (Indicative date)	Theme Seminar – State Aid/Private Investment	Riga
June 2014	Theme Seminar – UDF/City Alignment	Poznań
June 2014	Conclusion of analysis phase	N/A
July 2014	Start of dissemination phase	N/A
September/October 2014	Theme Seminar – Standardised Models	Seville
March 2015	Final Conference	Lille Métropole
April 2015	Local Dissemination Meetings	All
April 2015	Conclusion of dissemination phase	N/A

CONCLUSION

It is hoped that the themes identified during the partner visits and preparation of the baseline study and the work plan and methodology proposed will provide a solid and productive basis for the implementation phase of the Network. As has been outlined, it is envisaged that the transnational learning and exchange and thematic recommendations will be of interest and use not only to the partner cities but also wider stakeholders such as the European Commission, Managing Authorities and other cities.

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Website: **www.urbact.eu/csieurope**
Email: **csieurope@manchester.gov.uk**
Telephone: **+44(0) 161 234 3663**

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