



# CSI Europe

PARTNER – RIGA PLANNING REGION

LOCAL ACTION PLAN

Executive summary

*Making financial  
instruments work  
for cities*



**European Union**  
European Regional Development Fund

Connecting cities  
Building successes



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## INTRODUCTION AND COOPERATION WITH THE LOCAL SUPPORT GROUP

The elaboration of the Local action plan on the opportunities to use financial instruments in Riga planning region is the main result of the project “City Sustainable Investment in Europe” financed by the URBACT programme. Riga planning region is one of nine project partners and has a strong interest in exchanging knowledge and experience on urban development issues, particularly on the use of financial instruments in developing and implementing urban development projects.

**The aim of the Local action plan:** to promote the involvement of Riga planning region in the development and use of new financial instruments in order to ensure a more effective planning and implementation of urban development projects.

**Territorial scope of the Local action plan:** Riga planning region.

The action plan was elaborated by „BaltLine Globe” Ltd. in close cooperation with the administration of Riga planning region and the Local support group members of RPR Cities (Riga, Jurmala, Olaine, Ogre, Tukums, Limbazi).

## INITIAL CHALLENGE AND LESSONS FROM OTHER COUNTRIES

Urban development is among main Cohesion policy priorities in 2014-2020. The main challenge in Riga planning region lies in promoting integrated and sustainable urban development based on urban development strategies. There is a strong need to develop new instruments for more efficient use of European Structural investments funds and for developing new cooperation models promoting public-private partnerships towards achieving regional development goals. Financial instruments are seen as one of solutions that could be used in planning and implementing urban development projects.

The Local support group considered a need to analyse previous experiences of implementing JESSICA initiative in other countries. Thus the analysis of lessons learned was one of the steps in developing the Local action plan.

The main lessons learned from other countries implementing JESSICA initiative were the following:

- Projects are very different in volume of investments and type of projects (e.g. Trade centres, business incubators, office buildings, market places, underground parkings, housing projects);
- Most of the projects were targeted at urban regeneration; many at energy efficiency;
- Projects vary in size: from 0,27 mill euro up to 50 mill euro;
- Main problem: insufficient quality of projects that is often related to the lack of experience in preparing financially feasible infrastructure projects as well as insufficient technical assistance;
- Lack of synergy: projects often are not well integrated in sustainable urban development plan in practice, but are more individual projects with some impact on city development;
- Heavy administrative burdens in using financial instruments;

- Lack of experience in developing public-private partnerships.

## **RIGA PLANNING REGION CONTEXT AND MAIN OBJECTIVES**

Riga planning region has two main planning documents at regional level: Sustainable development strategy of Riga planning region 2014-2030 and Development programme of Riga planning region 2014-2020. Strategy is a policy document setting long term sustainable development directions. Development programme sets midterm development priorities, main goals and actions.

Sustainable development strategy of Riga planning region 2014-2030 sets three main strategic objectives:

- Social inclusion at local level;
- Knowledge-based, green and innovative economy;
- Ecologically tolerant way of life and places.

However the consultations with the Local support group members showed that there is a need for a more systematic implementation of strategic objectives that includes also a clear set of implementation tools and funding sources. Even though none of the development planning documents discusses the use of financial instruments in urban development, their potential use could be considered in the following areas that are mentioned among priorities: housing, mobility and transport infrastructure, energy efficiency.

## **MAIN INFLUENCING FACTORS**

During the elaboration of the Local action plan the following main factors facilitating the use of financial instruments in Riga planning region were discussed:

- Previous experience in EU funds administration and implementation of urban development projects;
- Possibility to combine different support schemes and different financing sources;
- Possibility to use the ex-ante evaluation for determining support rules complying with the development needs of Riga planning region and thus contributing to the development of priority projects;
- Possibility to develop more projects by using financial instruments and ensuring further re-investing of financing in new urban development projects. The use of financial instruments will increase sustainability and return of investments.

Other factors hindering the use of financial instruments in Riga planning region were identified:

- Uncertainties at national level about opportunities to use the financial instruments in 2014-2020 planning period;
- Limitations deriving from the Operational Program;
- Lack of experience in the use of financial instruments in urban development projects;
- Lack of understanding/knowledge about potential stakeholders. Neither Riga planning region, neither municipalities belonging to the Riga planning region have experience in using financial instruments;
- Insufficient information about real estate and territories owned by public sector and economic potential of using them;

- Lack of experience in cooperation with private sector in implementing urban development projects (small experience in PPP projects and lack of good practice examples of cooperation between municipalities and private sector in implementing urban development projects);
- At national level the role and responsibilities of Riga planning region in achieving urban development goals in the territory of Riga planning region are not clearly agreed;
- From point of view of municipalities the loan rates can be not too attractive.

## LOCAL ACTION PLAN APPROACH: MAIN STEPS AND DELIVERY FRAMEWORK

In promoting the use of financial instruments in urban development, Riga planning region might be involved in several steps.

<b>EU regulatory requirements for the implementation of financial instruments</b>	
<b>The establishment of financial instruments should comply with EU regulations defining the requirements for the implementation and operation of financial instruments</b>	
Regulation of the EP and Council No. 1303/2013	The regulation provides common rules for the ESI funds, and the articles 37-46 define the general regulation for financial instruments.
Regulation delegated by the Commission No 480/2014	The regulation completes the Regulation of the EP and Council No. 1303/2013. The articles 4-14 define several requirements for the implementation of financial instruments.
Regulation of the Commission 651/2014	Regulation foresees several support categories as compliant with the internal market. The regulation defines the criteria for the development of urban projects, volume of total investments, support types, ground requirements for support measures and other issues related to the urban development.
<b>State aid requirements</b>	
<b>State aid requirements have to be respected in the implementation of financial instruments</b>	
Compliance with the State aid framework for all actors	State aid must be assessed in the context of the financial instruments in relation to relevant stakeholders such as fund administrator, financial intermediary, as well as the final beneficiaries.
State Aid support options	There are four options to comply with the state aid rules: <ul style="list-style-type: none"> <li>• no-aid;</li> <li>• de minimis;</li> <li>• exceptions as stated in the General Block</li> </ul>

	<p>Exemption Regulation No. 651/2014;</p> <ul style="list-style-type: none"> <li>the notification to the EC on State aid measure.</li> </ul> <p>Compliance with the state aid requirements is one of the essential elements that has to be respected in the implementation of financial instruments. The costs estimated in the investment projects must comply with the specific rules set by the financial instrument and with the State aid requirements.</p>
State Aid exemptions	State Aid exceptions are laid down in Commission Regulation No. 651/2014.
<p><b>Financial instruments governance</b></p> <p><b>A decision at national level on the use of financial instruments for urban development projects and their governance model is required</b></p>	
<p>An agreement at the national level on the institutional and legal framework for the implementation of financial instruments.</p> <p>The co-operation between local and regional authorities and the Managing Authority.</p>	<p>When deciding on the use of financial instruments, political and economic issues should be examined (e.g. development of financial instruments, role of the European Investment Bank, the selection procedure for financial intermediary, etc.), as well as other more practical issues (e.g. the use of existing capacity of public administration bodies, the delivery of financial intermediary functions).</p> <p>This decision should be based on what kind of financial instruments' governance model would be most suitable to respond to the country's context and would be the most appropriate to ensure a higher return without losing the lead in the process. If it is a 100% public body, the management and control processes of financial instruments could be easier.</p> <p>The agreement at national level includes, for example, the decision on whether or not an independent body will be established for administering the financial instrument and what will be the modalities for the establishment of such an institution.</p> <p>Riga planning region, together with other regions and municipalities can encourage the adoption of such a decision on the use of financial instruments in urban development.</p>
The decision on the funding sources and amounts	A decision on funding sources and amounts that will be allocated to the implementation of financial instruments in urban development must be taken at governmental level. Main funding comes from ESI funds (usually ERDF) and national co-financing has to be ensured as

	well. In some cases resources from other financial institutions might be involved.
The implementation rules	The framework conditions for using financial instruments should be developed. For example, the requirements and conditions that will be applied to different types of loans and to receiving funds from the financial instruments. Lending may be delegated to public or private banks, which already have necessary expertise and resources to conduct such activities.
Institutional capacity and human resources	Institutions and experts who will work with developing and implementing financial instruments for urban development projects will require knowledge on both on urban development issues as well as financial investments.
<p><b>The opportunities for Riga planning region</b></p> <p><b>Several activities promoting the use of financial instruments in Latvia can be carried out at regional level</b></p>	
Meeting with the Ministry of Finance	<p>For exploring the potential of financial instruments a formal ex-ante evaluation has to be carried out. There is a need to deliver analysis on the most appropriate implementation models and main implementation procedures.</p> <p>The co-operation between local and regional level authorities and the Managing Authority is essential in order to decide on the best financial instruments' implementation model.</p>
Consultations with the Latvian Association of Large Cities, the Latvian Association of Local and Regional Governments and with municipalities on investment projects for whose development the financial instruments could be potentially used.	<p>It is necessary to assess the investment desires and needs of the cities according to the market appropriateness and viability of the projects.</p> <p>Riga planning region could gather proposals of other cities on investment projects that could potentially be financed through financial instruments and are part of the integrated sustainable city development strategies and could assess their suitability for the use of financial instruments in their funding.</p> <p>For successful implementation of financial instruments, it is essential to select such investment projects that are corresponding to the requirements and conditions of financial instruments, provides a concrete contribution to urban development and are generally viable. It should be noted that the possible identification of projects and preparation is a time-consuming process, so it is important that most relevant experts get involved in the</p>

	preparation of projects to facilitate the preparation of projects in accordance with the conditions for the implementation of financial instruments.
Meeting with the financial institutions	<p>It is necessary to consider which financial institutions are interested in the possibilities offered by financial instruments and which one would be best for ensuring the management of financial instruments.</p> <p>The previous experience showed that a single national-level fund is more appropriate than separate individual funds serving some regions.</p> <p>Given the fact that the Latvian banking sector recognises a term “financial instruments” as an agreement that in parallel creates the financial assets for one person and provides a financial liability or equity securities to another person (see. Financial Instruments Market Law), it is necessary to agree on the use of terminology and possible changes in the regulatory laws regarding the use of the term "financial instruments".</p>
Meeting with representatives of other countries having previous experience in implementing JESSICA initiative	In-depth analysis of the experience of other countries helps to assess the potential risks, detect the existing gaps and options to reduce the gaps in the implementation of financial instruments thus could support the elaboration of the implementation model of financial instruments in Latvia.
Elaboration of Sustainable City Development Strategies	Riga planning region could provide professional support in developing sustainable urban development strategies in order to provide timely inclusion of projects suitable for the use of financial instruments.
The market analyses for commercial properties in Riga planning region	In delivering this analysis it should be taken into account that existing market failures does not mean that there is demand for their elimination. For example, a lack of investment in one area may not mean that in a given area there is a clear need for these investments.

## ACTIONS SCHEDULE AND FUNDING SCHEME

The main set of actions of the Local action plan will be implemented in the 2014-2020 planning period.

Riga planning region will allocate human resources for further work on the implementation of the Local action plan. Other funding for the implementation of any other action has not been secured.



## **DESCRIPTION OF THE PROCESS AND FINAL RECOMMENDATIONS**

The analysis of the planning documents of Riga planning region, as well as discussions with Local support group participants highlighted a wide range of territorial development needs.

Taking into account that projects implemented in public-private partnership are financially more sustainable, Riga planning region as a priority will identify those municipal urban development initiatives where private investments are envisaged.

In identifying the projects of municipalities the cooperation with largest municipalities of Riga planning region has an important role. First, it is necessary to gather information about the most significant urban development projects in terms of amount of planned investments and the surface of the territory that will be covered by the project. Second, it is essential to provide appropriate support to municipalities in preparing most sustainable urban development projects.