

CITY OF MALMÖ

CSI Executive Summary

Financial Instruments as Sustainable Urban Development Tools

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1. City context and definition of the initial challenge/policy issue

The starting point of the report is the city of Malmö. Even though UDFs are currently not an option in Malmö, the need to find new financial models remains. Malmö is the third largest city in Sweden with more than 300 000 citizens. It is located in the most southern part of Sweden, in close proximity of Copenhagen in a region of almost four million people living and working. During the last decades, the city has undergone vast changes. The city experienced hardship during the structural crisis, due to decline of the formerly important heavy production industry. Today, Malmö has developed into one of the world's most innovative cities with an important clean-tech industry, vibrant culture, a growing university and a number of internationally recognized urban development projects – many of which are developed with a sustainability approach.

However, the city still faces pressing development needs, mainly in the field of regeneration, energy efficiency and social investments. Special attention is drawn to urban areas consisting of housing blocks from the million program era built between the years of 1965 and 1975. The city authority's ambition is to handle different aspects and issues jointly: to make physical transformation with social benefits such as local job creation and inclusion, and at the same time keeping rents at reasonable levels. The city is working actively with an integrated strategic approach to sustainable urban development.

Finding ways to finance an integrated sustainable urban development is a challenging task of great importance. The European Commission and the EIB are encouraging a shift from a grant-based distribution of structural funds towards an investment-based distribution through financial instruments, such as revolving urban development funds (UDF). During the last years, these financial instruments (FIs) have proved to be capable of driving substantial change by handling market failures and allocating funds to suit an integrated approach to sustainable urban development.

2. Setting of focus and objectives

The action plan of Malmö cannot focus on the creation of a specific financial instrument at the time being. The plan has been to spread knowledge about financial instruments as means of urban development, to inspire further innovations and discussions about FIs and about the current limitations set by the operational programs. This is also the aim and scope of this report in which we discuss the fundamental challenges of financing urban development, compile experiences from FIs in other European cities, offer a view into the discussions and operations in the Swedish financial market, and seek to inspire local as well as regional and national authorities in their search for new financial possibilities.

There is a major concern as how to finance these investments in a long-term sustainable way. The financial resources of the city are limited, the regeneration projects cannot be financed by land sales and there are a number of market failures that need to be handled.

3. Actions schedule

Experiences from cities in the CSI network show great potential in urban development funds, such as the possibility to attract and allocate different kinds of public and private funds providing leverage and financial potential, bridging the gaps where markets have failed, reinvesting funds, creating financial viability in the supported projects and aligning investments with the local needs and strategic direction.

The financial sector in Sweden has shown a highly positive attitude towards setting up financial instruments with sustainability and urban development benefits. There is already an existing market for “green bonds” in Sweden, and openness regarding other integrated solutions. At the time being, there is no possibility to set up dedicated urban development funds using ERDF funds in Sweden. However, there are other funds possible to use in order to set up funds with urban development benefits, and there could be a possibility to create comprehensive and dedicated UDFs in the future. Swedish municipalities and regions could therefore start searching for innovative and incremental solutions to start using financial instruments with other funds, thereby developing governance experience and capacity and creating strong pipelines of investment-ready projects.

With this report we want to broaden this discussion and encourage others in the search for new ways of financing an integrated sustainable urban development. This report leaves the reader with hands-on directions for further reading as well as channels of contact to local, national and European authorities who can provide guidance and practical support in the process of setting up financial instruments.

The report will be shared through already established connections on all political levels in Sweden and in the financial sector.

4. Funding scheme and Framework for delivery

As mentioned above, the action plan of Malmö cannot focus on the creation of a specific financial instrument for the time being. Due to the political obstacles of establishing an urban development fund, it is impossible to determine when the development of a fund can begin. Today there is no political decision or will to create any kind of financial instrument for urban development in Malmö and we can only share the report at present.

5. Description of the process

The city of Malmö has been one of 16 European cities taking part in the URBACT network CSI Europe during the last three years. The purpose of establishing the network has been to develop and evaluate financial instruments as tools for sustainable urban development, sharing knowledge and finding ways to make implementation more efficient. Malmö is participating in CSI through the Malmö Innovation Platform; a project aiming to promote, prototype and test holistic solutions targeting social, ecological and economic challenges in

deprived areas of the city. The initial intention was to create a fund within the project. However, due to limitations in the Swedish ERDF operational programs, UDFs have not been possible to implement within the country.

Through the CSI network we have had the possibility to learn about the possibilities of FIs through experiences from cities around Europe, gather knowledge of the Swedish preconditions and launch a national discussion regarding FIs in the context of urban development.

The CSI network has been a start for the discussions regarding FI for urban development I both Sweden and national level. This process will now continue within the Malmö Innovations platform. The ULSG that also acts as the Innovation platform steering group has created a financial work package where partners from both the academia and the business sector now are being committed to this process together with representatives from the city and the region. By encouraging other partners and spreading the knowledge he have assembled though the network we hope to encourage our politicians to start looking att FI for cities as a possible way forward.

6. Risk analysis

As mentioned above, the action plan of Malmö cannot focus on the creation of a specific financial instrument at the time being. The purpose of the report (Malmö's local action plan) is to increase the probability of Malmö establishing a financial instrument by informing decision makers. The probability of accomplishing this by disseminating the report is high, because we estimate that the general awareness of the benefits of making financial instruments work for cities is low in general.