



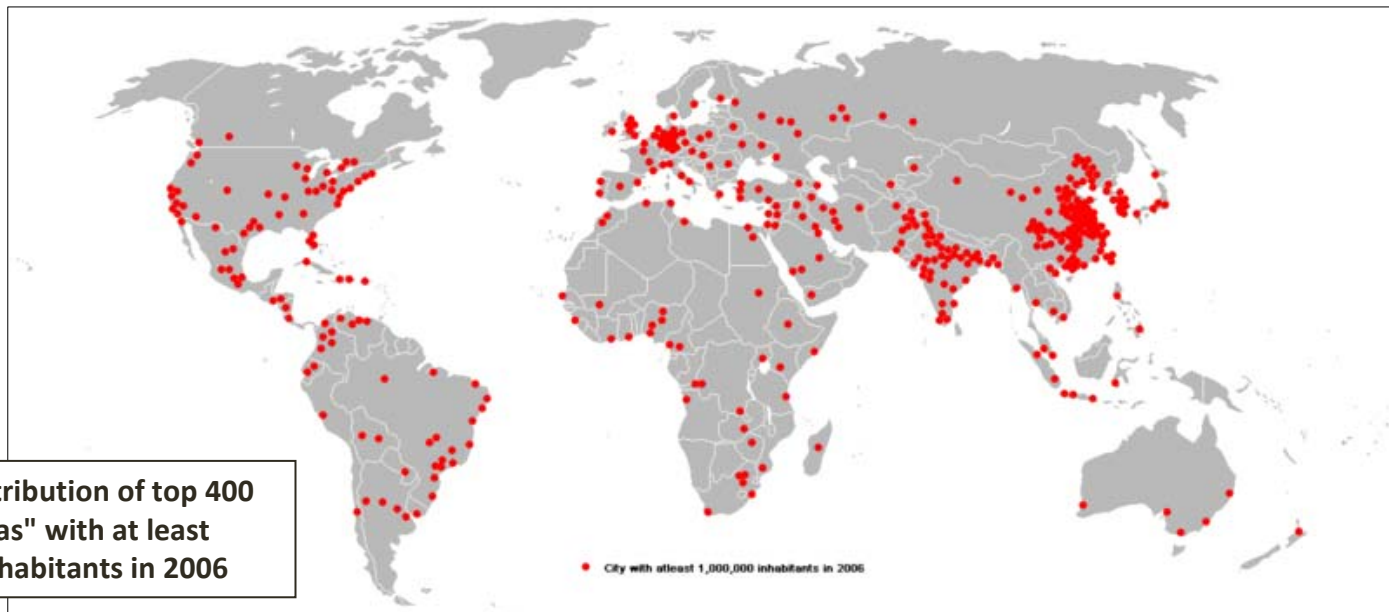
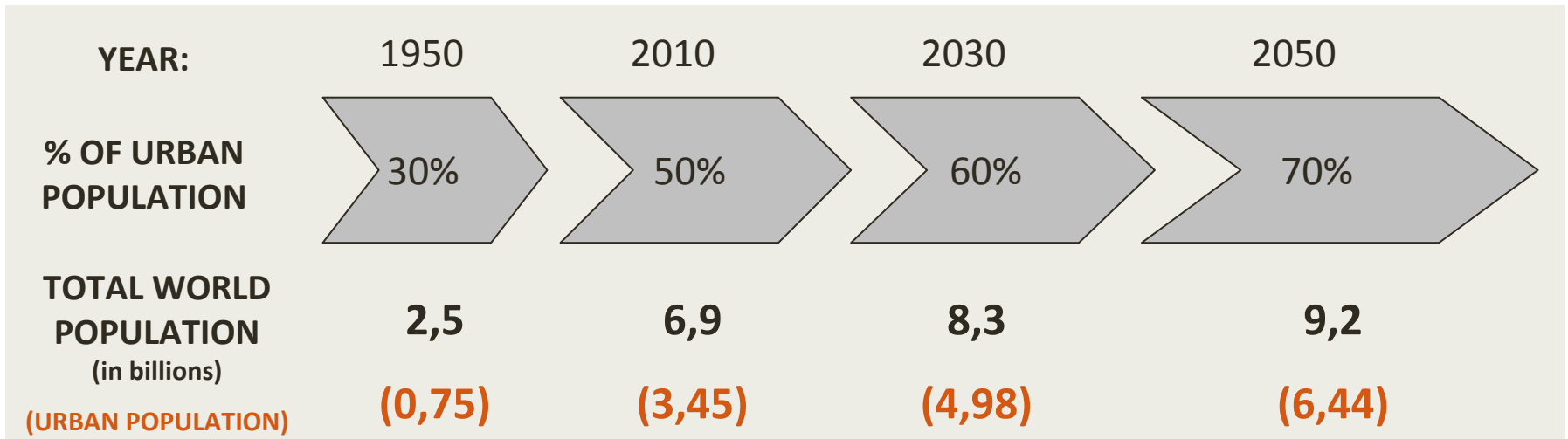
JESSICA Urban Development Funds

Impact Funds: A concept for urban policy delivery

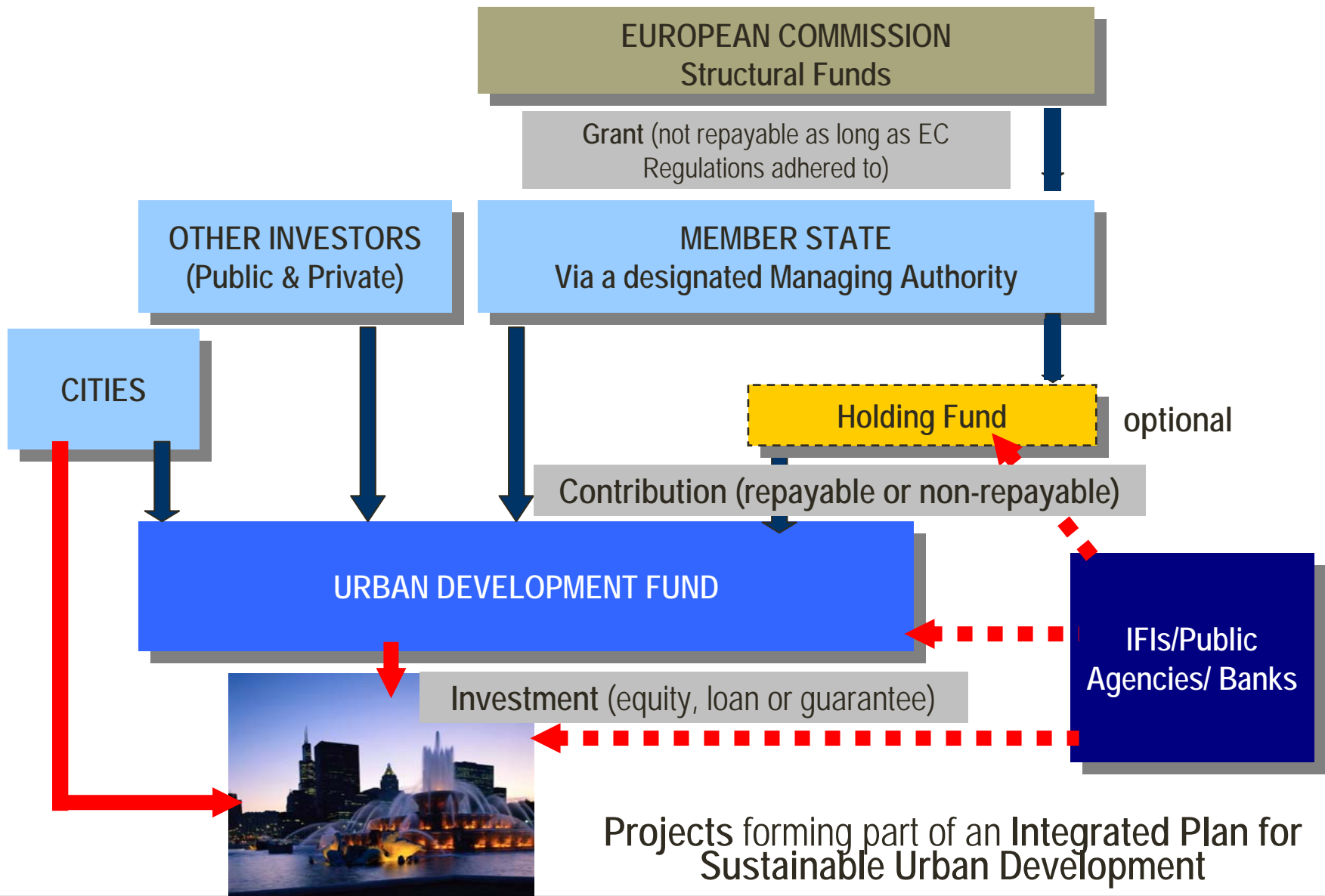
Workshop “Development of the Cities – JESSICA Initiative”, Warsaw, 18 May 2011

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JESSICA and Investment Funds Division,
European Investment Bank

Growing urban population



General JESSICA implementation model



State of play of existing JESSICA mandates



EIB Holding Fund mandate			Implementation progress						
Managing Authority	Volume (EUR m)	HF FA	0	1	2	3	4	5	6
HF - Wielkopolska (PL)	67	II/09							
HF - Andalucía (ES)	86	II/09							
HF - Lithuania (LT)	227	II/09							
HF - Portugal (PT)	130	III/09							
HF - WestPomerania (PL)	33	III/09							
HF - London (UK)	110	IV/09							
HF - NorthWest England (UK)	110	IV/09							
HF - Sicily (IT)	148	IV/09							
HF - Moravia Silesia (CZ)	20	I/10							
HF - Campania (IT)	100	I/10							
HF - Scotland (UK)	55	II/10							
HF - Greece (GR)	258	III/10							
HF - Silesia (PL)	60	III/10							
HF - Pomerania (PL)	57	III/10							
HF - Bulgaria (BG)	33	III/10							
Total signed 2010	1,494								
HF - Energy Efficiency (ES) *	110	II/11							
HF - Galicia (ES)	15	II/11							
HF - Sardegna (IT)	60	II/11							
HF - Masovia (PL)	40	II/11							
HF - Abruzzo (IT)	25	III/11							
HF - Czech National Fund (CZ)		III/11							
HF - Hungary (HU)		III/11							
HF - Slovakia (SK)		III/11							
Total expected 2011	250								
Total 2010 + 2011	1,744								

Key implementation stages:	
0	Pre-negotiation Stage/ HF Agreement to be signed in 2010
1	HF Agreement signed/ Investment strategy/ Investment board
2	Call(s) for Expression of Interest in preparation
3	Call(s) for Expression of Interest launched
4	Call(s) for Expression of Interest closed
5	UDF(s) selected
6	Operational agreements in place (HF/ UDF)

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

⇒ Higher productivity of SF / public funds in Urban Areas

- Increase efficiency and productivity of Structural Funds by making use of innovative and revolving financing instruments in the urban sector (complementary to grant financing)

⇒ Leverage effect

- Mobilise additional public and private sector resources for the benefit of sustainable and integrated urban development (schemes)

⇒ Expertise - new partnerships and synergies

- Utilise financial, managerial and project implementation expertise from private sector or international financial institutions such as EIB

UDFs as “*impact funds*” for urban transformation

*The terms “**impact funds**” or “**impact investors**” refer to investors and investment vehicles that have an interest, in addition to achieving remuneration to their investment, in achieving measurable “**impacts**” (in our definition “**sustainable ERR target**”) on policy-defined, non-financial objectives, constituting a key dimension in the investment vehicle performance assessment.*

Urban Development Fund (UDF) as an urban impact fund:

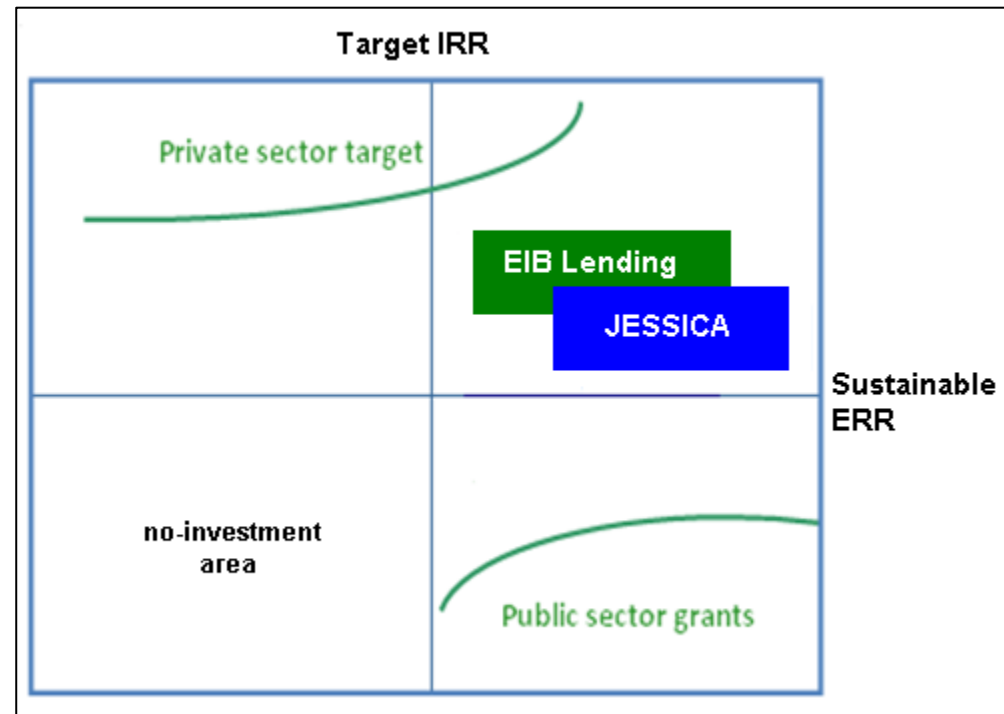
- **a specific policy tool** within the wider financial engineering concept in the programming period 2007-2013;
- to promote, by **employing Structural Funds in close cooperation with DG-REGIO**, the development of a system of financial engineering instruments (so-called Urban Development Funds) for urban development;
- **policy-driven, geographically-focused** and **planning-led** investment vehicle supporting the sustainable transformation processes of city areas;
- impact investing to be seen as **a new asset class** requiring specific investment skills, organisational structures, metrics and benchmarks.

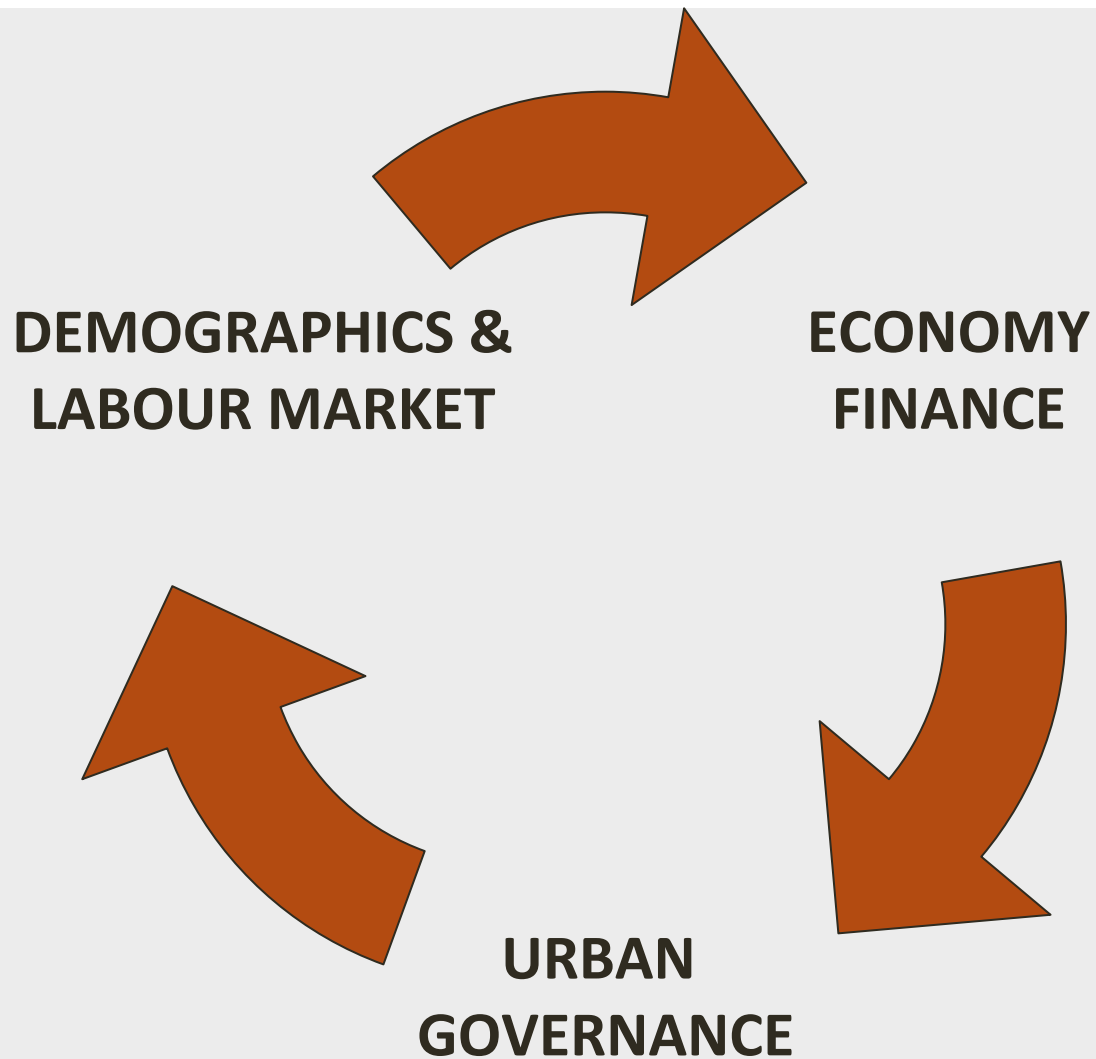
Which types of UDFs?



- **Urban regeneration funds (mainly area-based)**
 - “Place making” locations / incubators / creative class attractors
 - Brownfield locations, mostly in inner city areas
 - Deprived city districts, urban sprawl voids
- **City infrastructure transformation funds (for city systems)**
 - Addressing infra / urban imbalances from changes in city hierarchy
 - Focusing on the provision of capital in less competitive areas
 - Focusing on transformation of strategic urban infrastructure
 - IT broadband, waste to energy, water, electric public transport, etc.

- **Energy-focused funds (regional or city-based)**
 - EE / RE and energy / emission audit / certification systems
 - Climate action strategies (EU 20/20/20 targets in urban areas)
 - Regional upgrade of green technology and transmission systems





1. EU, globalization, singly currency (EURO)
 - » moving towards “single market for cities” (1200 – 2000 functional urban areas compete for scarce resources: Human capital, Economic activity, Budgetary transfers, etc.)
 - » moving towards “Glaeser’s spatial equilibrium model”, however, when considering EU cities transformation, asymmetric factors such as migration flows shall be taken into consideration
2. MS and regions have partly lost their capacity to “govern” the transformation of the urban systems due to both market and institutional factors
3. New modes of interaction with the private sector to achieve public goals are needed
4. Public sector entities need modeling in order to control the processes and address future challenges
 - » Know-how, data, skills area already present in public administration but this requires also horizontal cooperation (→ role of MRR, MF, National Central Bank)

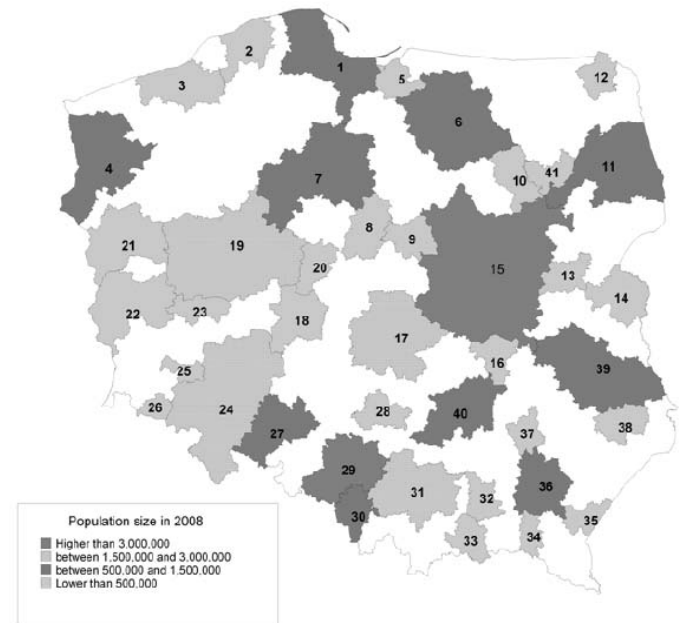
Functional urban areas and metropolitan areas



Integrated urban investment strategy for highly dense functional areas

Holistic Approach ➔ **Urban wealth**
(*Natural, Fixed, Human, Economic*)

- ↳ Jobs & economic activity
- ↳ Financials / Fiscal
- ↳ Sustainability
- ↳ Capital & enterprise transfers
- ↳ Human capital ageing / migration
- ↳ Asset value creation processes



1. 1. Gdańsk; 2. Stupsk; 3. Koszalin; 4. Szczecin; 5. Elbląg; 6. Olsztyn; 7. Bydgoszcz; 8. Włocławek; 9. Płock; 10. Ostrołęka; 11. Białystok; 12. Suwałki; 13. Siedlce; 14. Biała Podlaska; 15. Warszawa; 16. Radom; 17. Łódź; 18. Kalisz; 19. Poznań; 20. Konin; 21. Gorzów Wielkopolski; 22. Zielona Góra; 23. Leszno; 24. Wrocław; 25. Legnica; 26. Jelenia Góra; 27. Opole; 28. Częstochowa; 29. Katowice; 30. Bielsko-Biala; 31. Kraków; 32. Tamów; 33. Nowy Sącz; 34. Krosno; 35. Przemyski; 36. Rzeszów; 37. Tambrzeg; 38. Zamosc; 39. Lublin; 40. Kielce; 41. Iomza

Source: OECD calculations based on CSO (2010).

Main drivers of sustainable transformation/growth of those areas :

EMPLOYABILITY

(employment and unemployment structures, job creation in local population clusters, social enterprise, skills)

SOCIAL COHESION AND INCLUSION

(migration flows, educational capabilities and re-training, disability, impact of ageing, urban poverty, etc.)

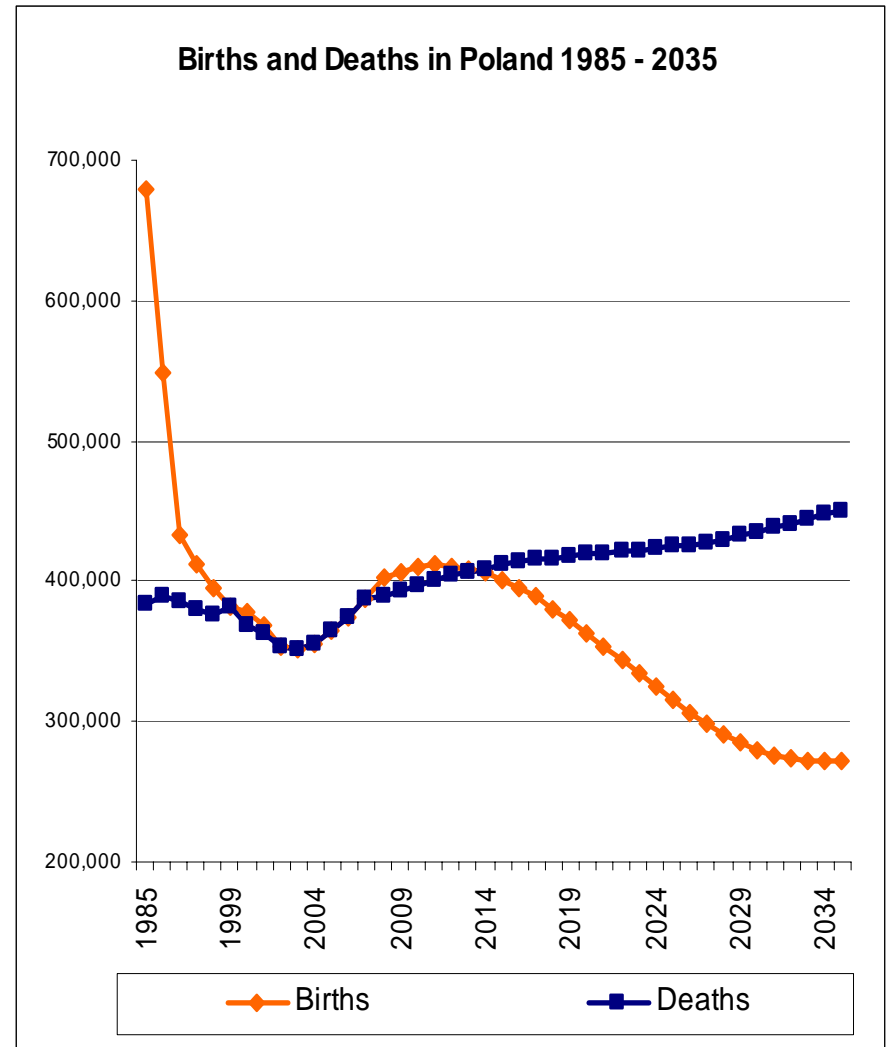
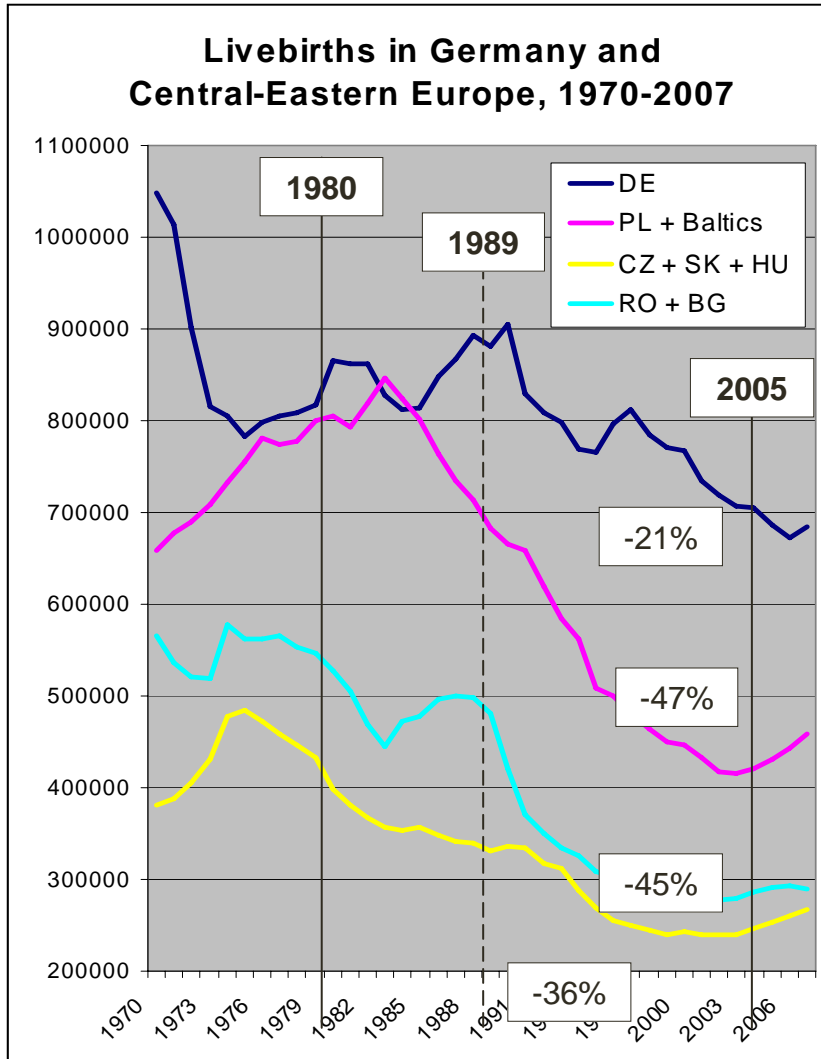
GREEN GROWTH

(technological change for sustainable urban transformation, green development/ jobs and smart city concept).

The Central EU demographic scenario



Falling fertility in CEE after 1980 - Fewer families from 2010-15 onwards & Migration effects



Increased levels of migration and mobility



Increased mobility

Youngsters → jobs

Elderly → quality for money

Women → opportunities

Cold → temperate

East → West

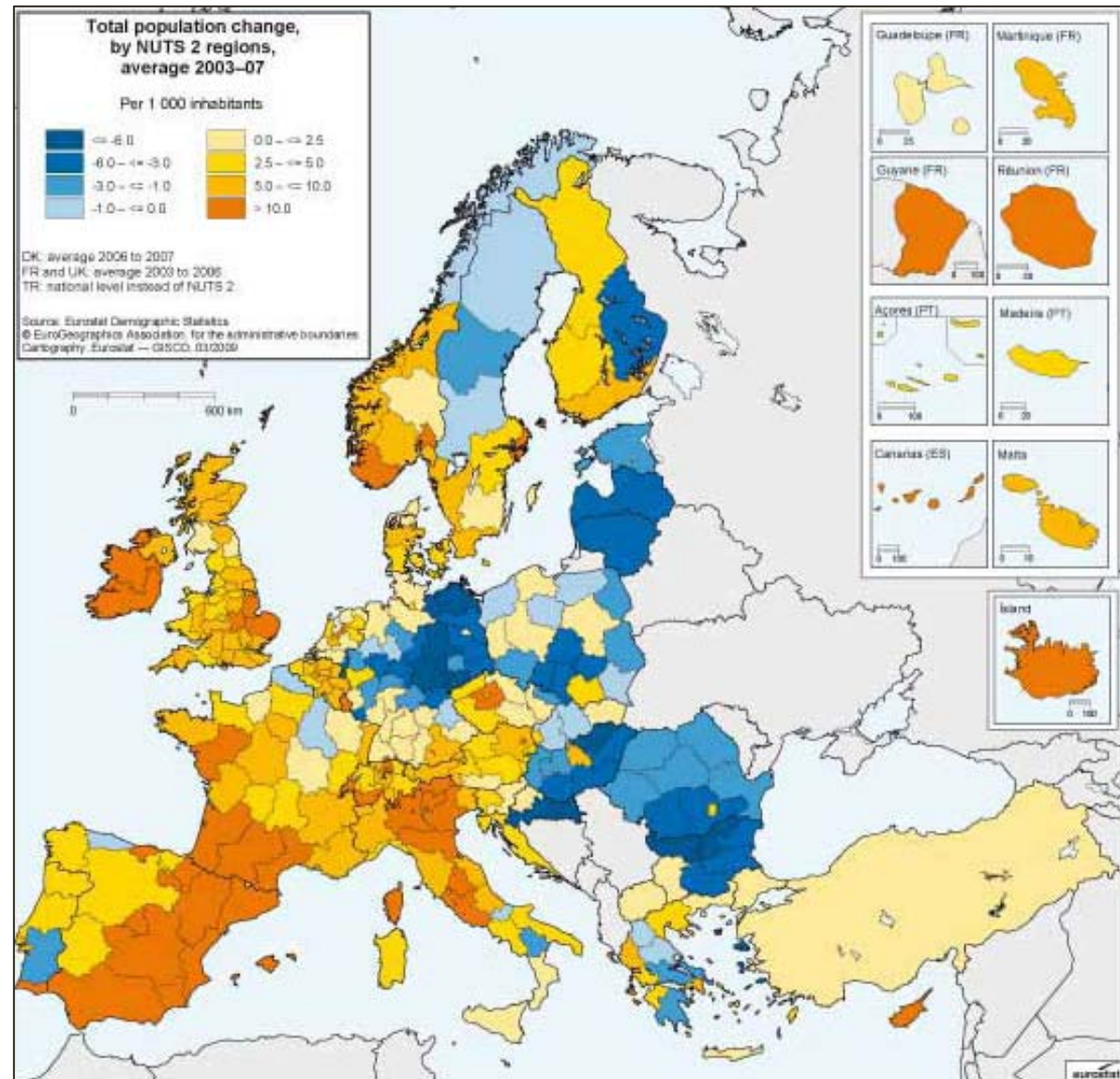
North → South

Inland → littoral

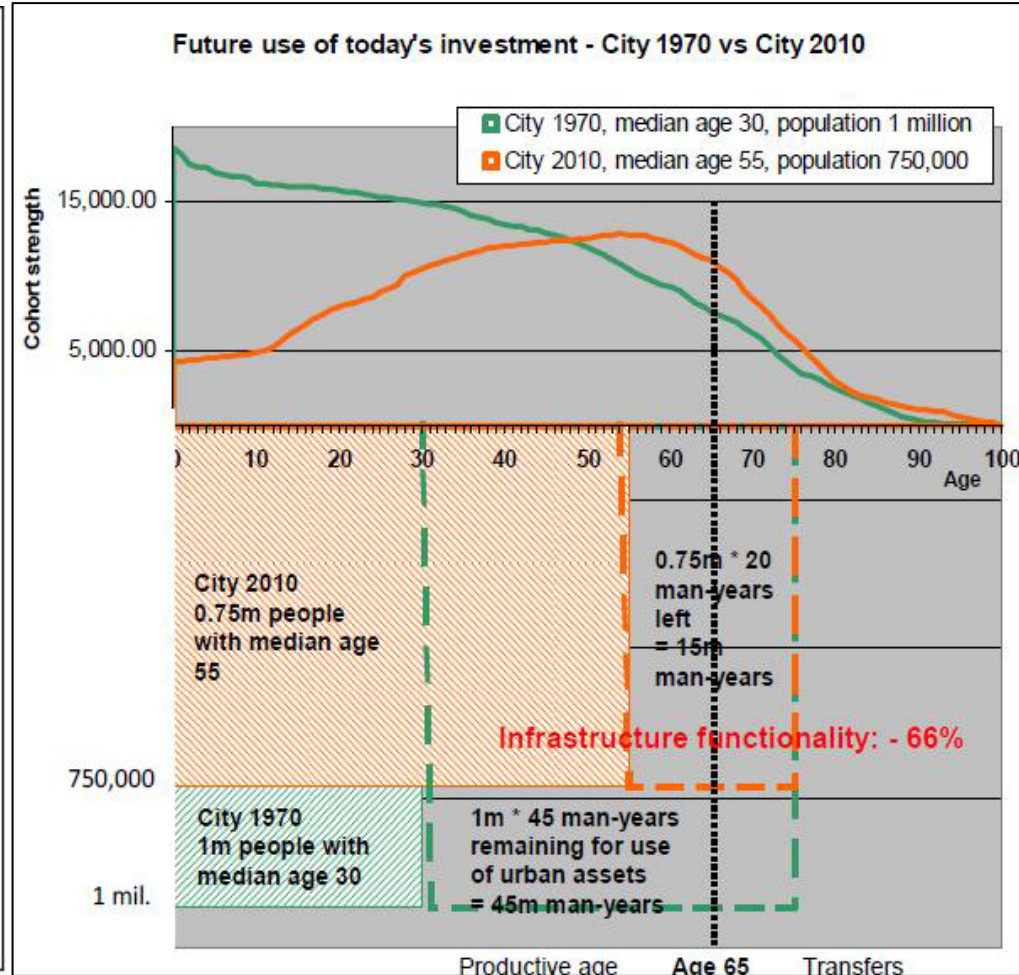
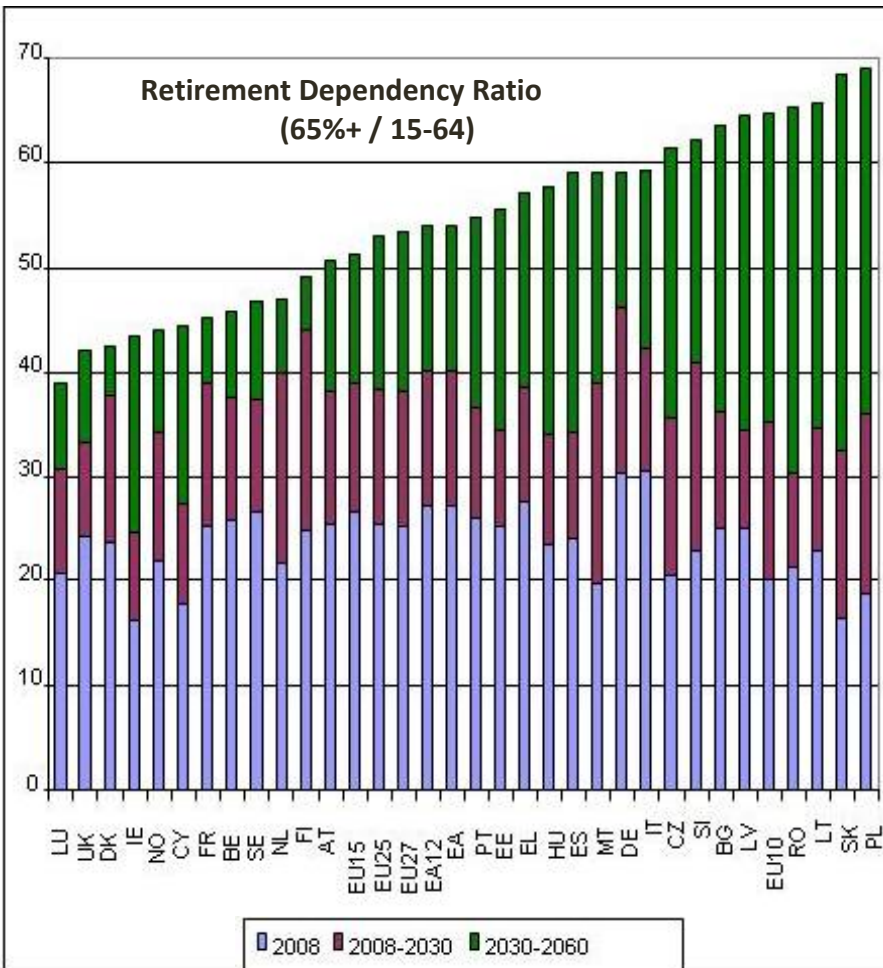
Countryside → urban poles

Centre ↔ sprawl

East DE: compacting



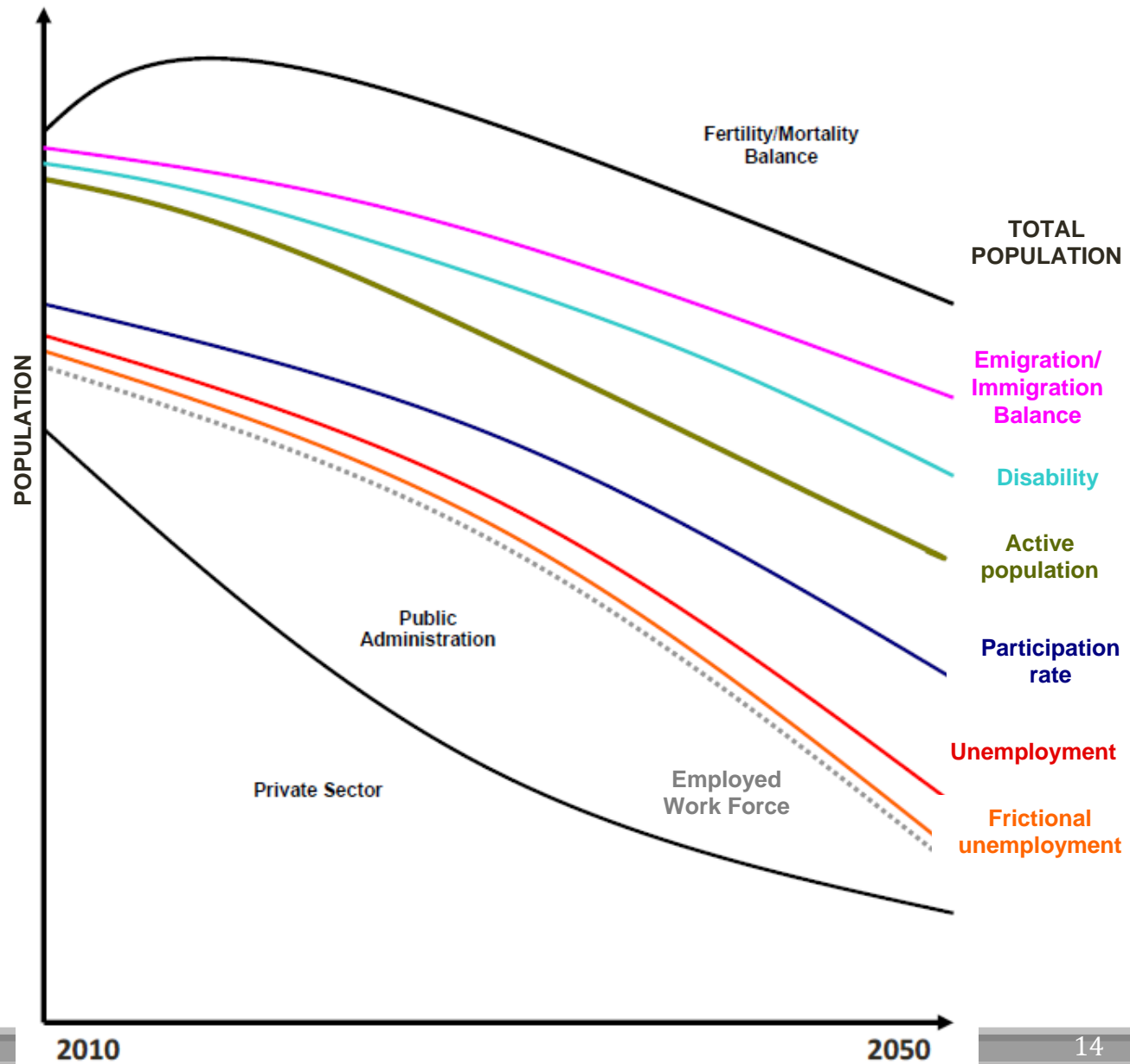
Demographic impacts on city infrastructure performance



Impact of ageing on population/labour market



Urban managers should control inertial socio-demographic changes as well as labour market transformation in order to successfully revitalize urban areas, and develop policy action targeted at specific clusters of city population.



Demographic impacts on public finance

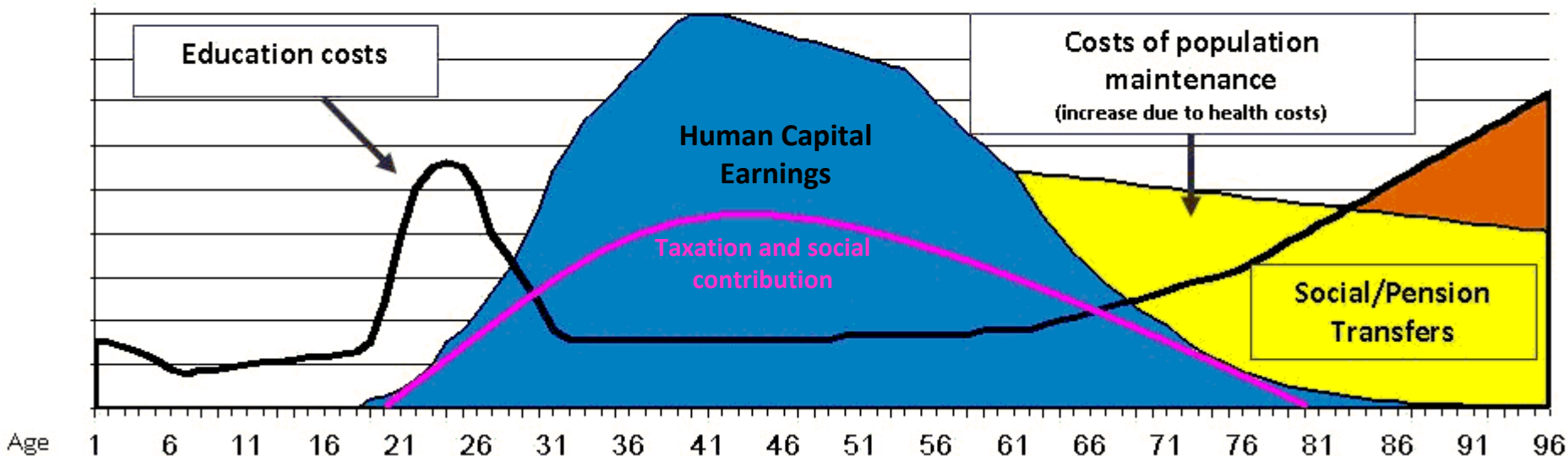


Ageing (increasing old-age dependency ratio)

- Impacts public budgets (lower GDP, higher pensions expenditure)

Productivity <i>Ratio</i>	Employment <i>Rate</i>	Age Structure <i>Indicator</i>	Demographic <i>Forecast</i>
$\text{GDP} = \frac{\text{GDP}}{\text{Employees}} \times$	$\frac{\text{Employees}}{\text{Active Population}} \times$	$\frac{\text{Active Population}}{\text{Population}} \times$	Population

HUMAN CAPITAL PRODUCTIVITY AND COST BY AGE STRUCTURE



Assessment of Sustainable Urban Productivity

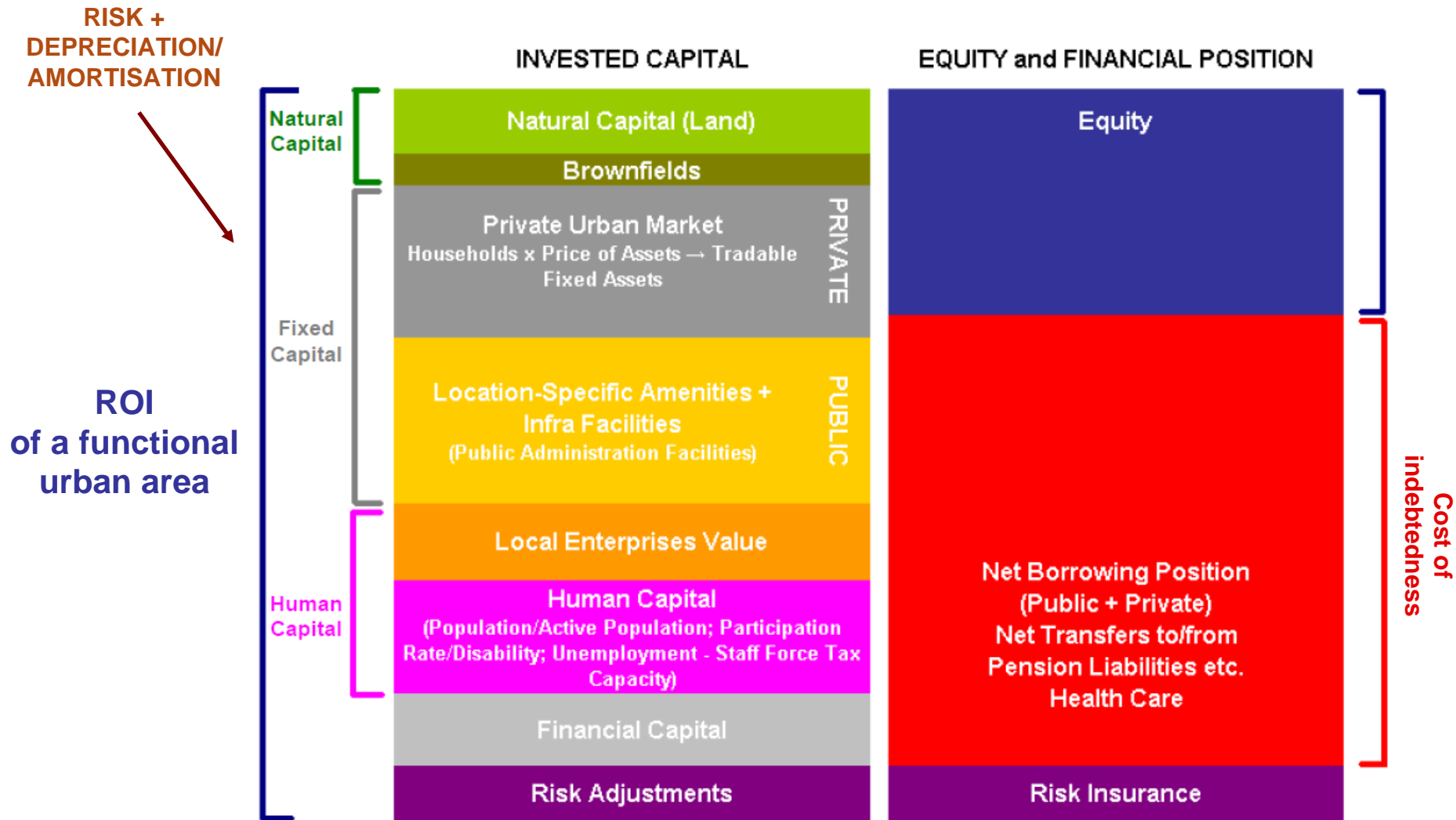


$$\text{(Capital) } K_U = \text{Debt} + \text{Equity} + \text{Risk} = K_N + K_F + K_{HC} + K_{EF}$$

Sustainable Value Creation in Urban Cycle Processes

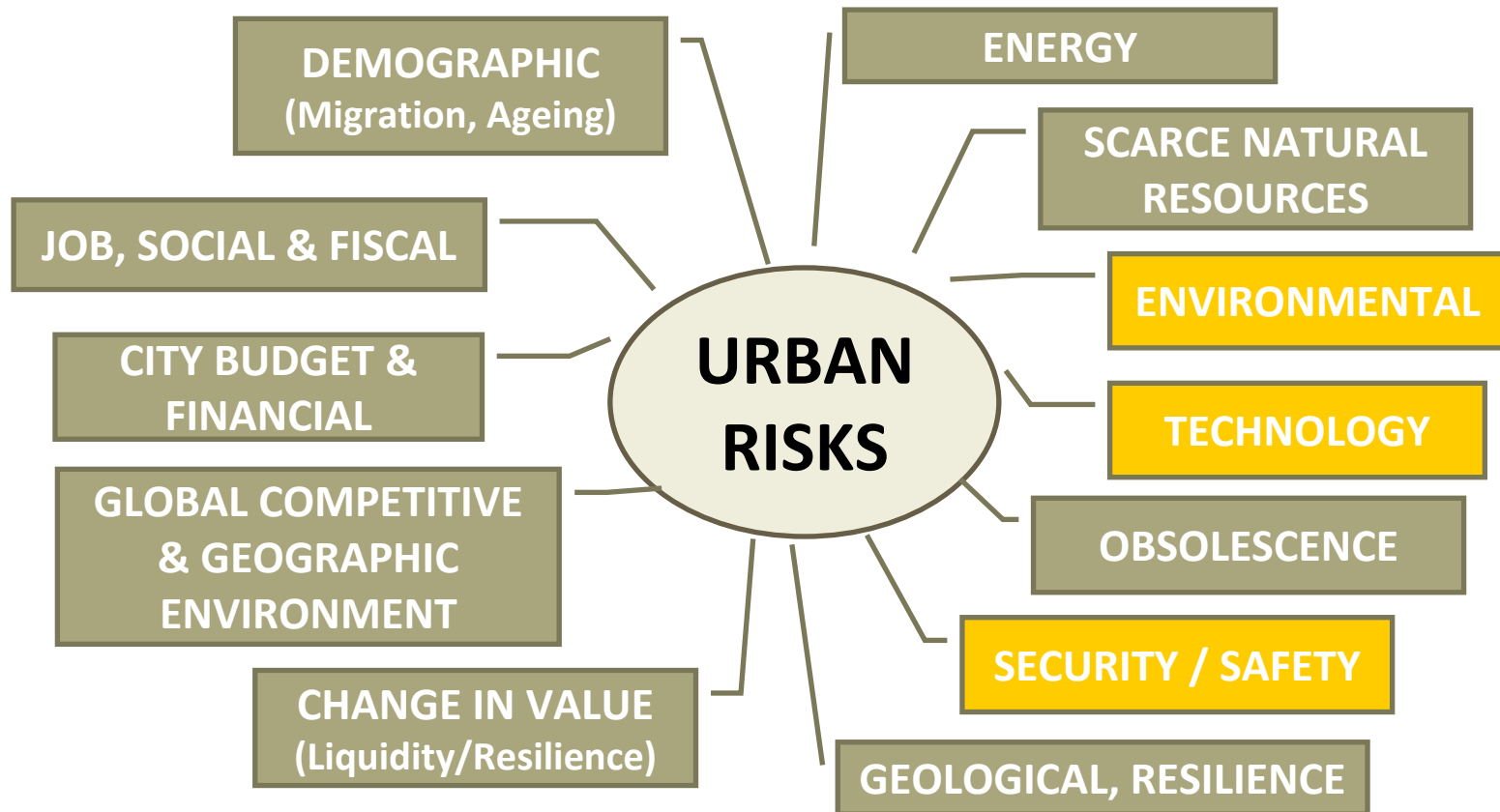
Micro/Corporate	Macro	Function
Output	Total amount of services/goods produced by urban capital factors	Y +
Intermediate Consumption	Intermediate costs borne in the production cycle	C -
Value Added	GDP	VA =
Salaries	Remuneration of productive HC (necessary to reproduce human stock)	W -
EBITDA	Gross Cashflow for Investment	EBITDA =
Depreciation/Amortisation	Capital Depreciation (= ordinary investment necessary to integrate urban stock)	DA -
EBIT	EBIT	EBIT =
Sustainability Costs	Extraordinary Investment necessary to integrate urban stock to achieve sustainability targets	Sust. -
Sustainable EBIT	Net spendable Cashflow for remunerating Lenders, Capital and Public Sector	EBITs =
Financial costs (revenues)	Financial costs (revenues); Remuneration of Economic/Financial Capital	i - / +
Transfers	Taxes, Grants, Pensions, Remittances, Transfers of Capital, remuneration of unproductive HC, etc.	T - / +
Value Creation	Goodwill and Value Capture processes connected to urban rent/externalities	V - / +
Free Cash flow for accumulation	Free Cash-flow available for future capital accumulation	Δ K =

Sustainable transformation driver → Benchmarking EBITs against invested capital



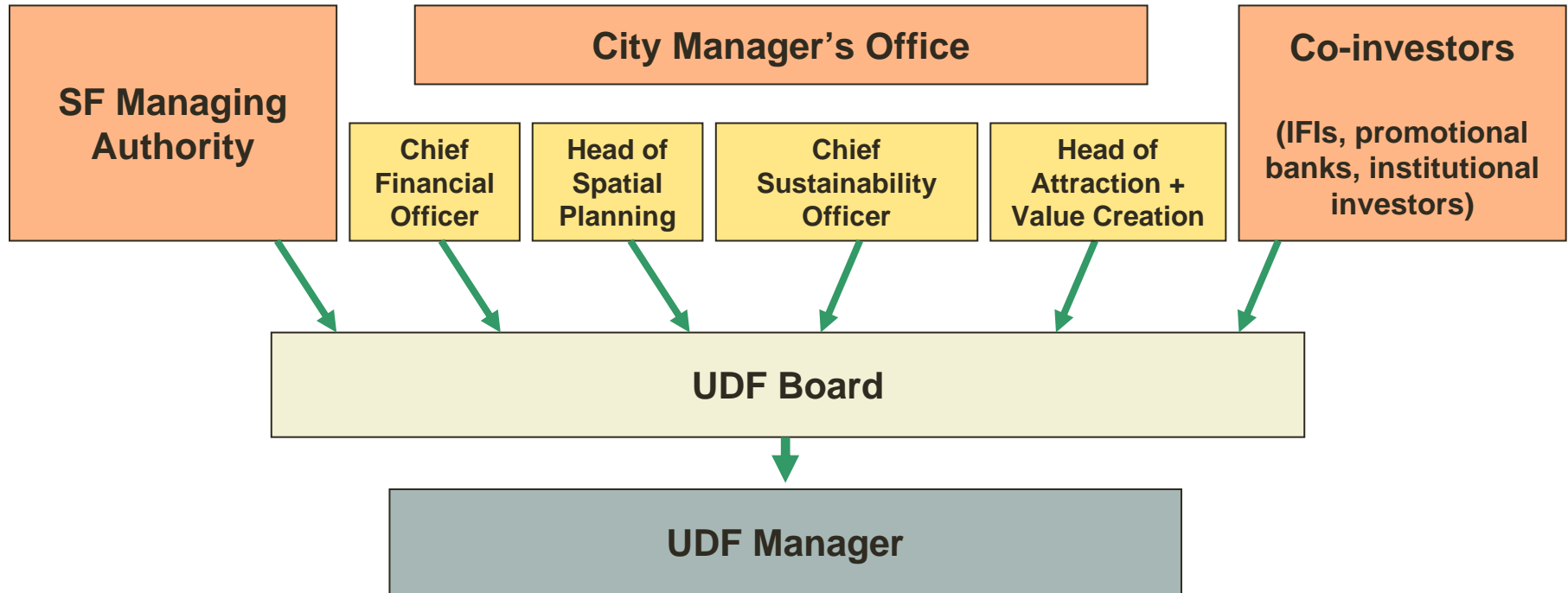
RISK: unknown - known

UNCERTAINTY – unknown - unknown



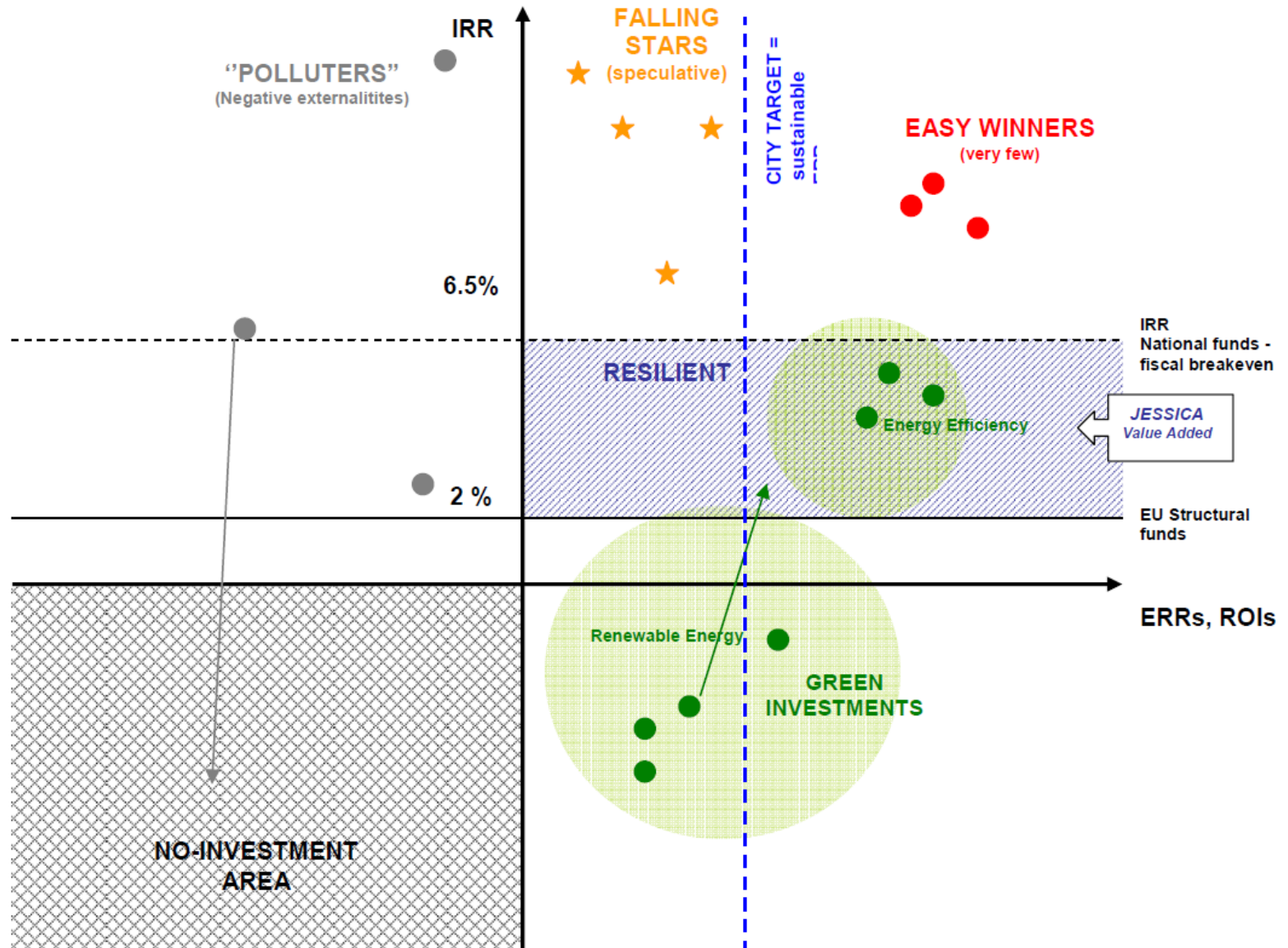
NEED FOR URBAN RISK SPECIALISTS

UDF governance structure for impact investing



- UDF investments into revenue-generating urban projects should not be based on “cherry-picking” lucrative projects
 - Manage the externalities, ensure qualitative sustainability of projects
 - Positive economic returns for the city have to be “enforced” in project design and selection

Green Energy investment: a productivity puzzle

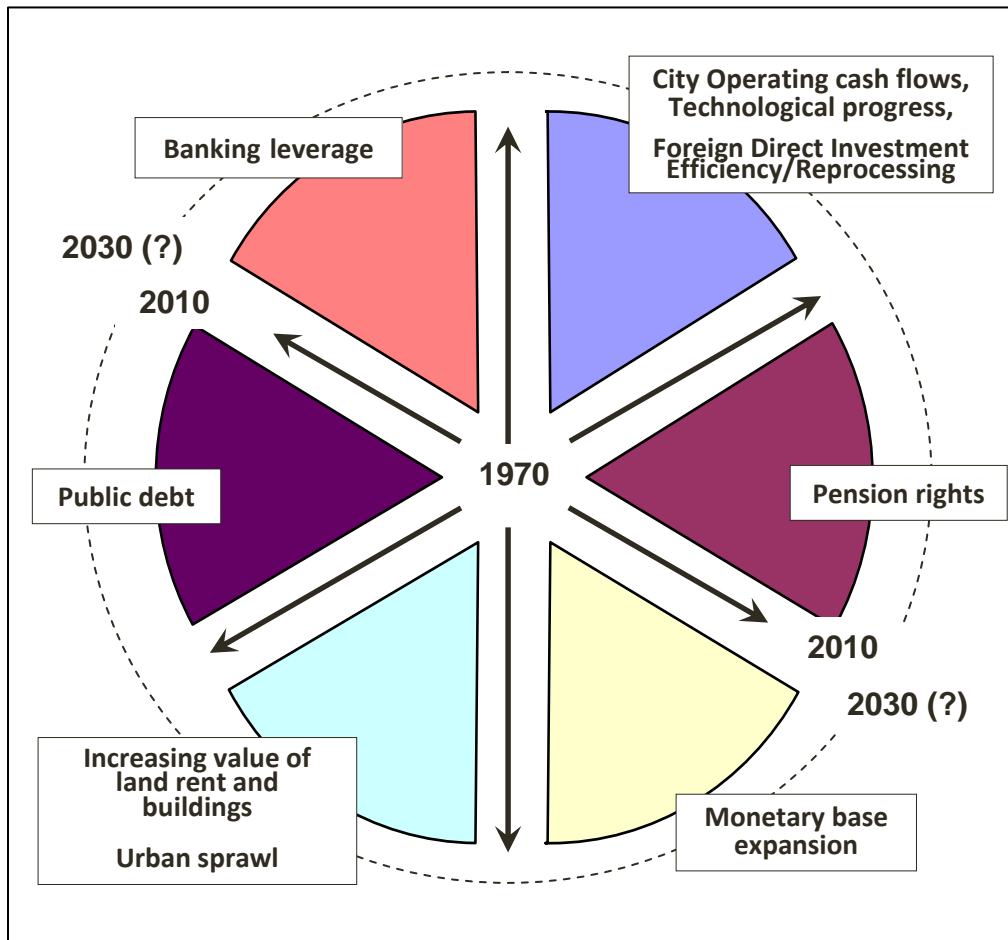


Raising “financial resources” for cities



What drove growth in 1970-2010?

What will happen to these (largely financial) drivers in 2010-2030?



Geography matters:

- Transform your city areas into growth poles
 - Focus on latent capital
 - Keep your cities “slow”/ “low cost” (maintenance, obsolescence)
 - Think new ways to finance inner city areas, housing stock refurbishment
 - Attraction from external sources is crucial (investment, capital,...)
- For all this, combine various sources of leverage
- Regions: SF
 - Cities: land & buildings
 - Banks: financial resources
 - Private: additional resources

Urban management in EU will be increasingly difficult, however, conditions for sustainable development can be created in local urban poles.

- The core element is to have *efficient, productive, attractive* and *livable* cities characterized by low maintenance/management costs and low “break-even point” on fixed assets
 - *Competitive cities in a shrinking/restructuring environment*
- Can be achieved by *rationalization, reprocessing, restructuring* and *optimization* at the urban level with a focus on sustainability
- Cities need clear objectives, strategic planning, a roadmap, governance, technical data and systems to tackle market distortions/ long-term risks - managed through **strategic impact investors**.

JESSICA Urban Development Funds as strategic impact investors

- Policy-driven financial instruments
 - Enabling to address LOCAL implications of GLOBAL problems
 - Through a LOCAL integrated strategy for urban investment
 - Reconciling a bottom-up approach with a global vision
- Bundesbank study of post-reunification transfers:
 - Geographically neutral policies are not conducive to economic growth
- **A strategy cannot be implemented without a financial instrument - but a financial instrument is meaningless without an adequate and focused strategy for value creation in cities.**



JESSICA and Investment Funds

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