



## Lowlands and Uplands Scotland ERDF and ESF Programmes 2007-2013 Programme Monitoring Committee

### JESSICA REPORT BY SCOTTISH GOVERNMENT

#### 1. Purpose

- 1.1 To seek the Committees agreement to a proposed feasibility study intended to test if the JESSICA funding mechanism could be utilised by the LUPS ERDF Programme.

#### 2. Background

- 2.1 Joint European Support for Sustainable Investment in City Areas (JESSICA), is an initiative of the Commission in co-operation with the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB), intended to promote sustainable investment, growth and jobs, in Europe's urban areas.

- 2.2 The need to do more in the field of sustainable urban development was raised during consultations on the draft Community Strategic Guidelines adopted by the Commission in July 2005. In addition, the report by European Parliament (Jean Marie Beaupuy) of September 2005, "The urban dimension in the context of enlargement" called on 'the Commission to reinforce actions for urban agglomerations and areas'. At the high-level conference involving the Presidency, the regions and financial institutions in Brussels on 24 November 2005 on the theme of Financing Growth and Cohesion in the enlarged EU the outline of a JESSICA-type co-operation agreement between the Commission and the international financial institutions was presented and received widespread support. The Informal Meeting of Ministers in Bristol on 6-7 December 2005 on sustainable communities called for a reflection on 'how to enhance the impact of EIB loans'.

- 2.3 JESSICA will offer the managing authorities the possibility to take advantage of outside expertise and to have greater access to loan capital for the purpose of promoting urban development. Where a managing authority participates under the JESSICA framework, it would contribute resources from the programme, while public sector sponsors, the EIB, other international financial institutions, private banks and investors would contribute additional loan or equity capital as appropriate. Since projects will not be supported through grants, programme contributions to urban development funds will be revolving and help to enhance the sustainability of the investment effort. This could leave a lasting legacy from the current programmes to fund urban development efforts within the programme area after 2013. The programme contributions will be used to finance loans provided by the urban development funds to the final beneficiaries, backed by guarantee schemes established by the funds and the participating banks themselves. No State guarantee for these loans is involved and they would not aggravate public finance and debt.



### 3. Options

3.1 For two possible approaches, the basic steps leading from the contribution from the programme to support for a project on the ground are as follows:

#### 3.2 Option 1 - Direct relationship with Urban Development Funds.

Managing authorities deciding to use the JESSICA framework will launch one or more **calls for expression of interest**, addressed to urban development funds and the resulting submissions would then be appraised in the usual way. Relevant criteria in this context would include the investments and projects to be targeted, the terms and conditions under which they would be financed, ownership and contributions of co-financing partners of the fund, the justification and intended utilization of the ERDF contribution, the winding up provisions of the fund, etc.

As a result of the appraisal, a **funding agreement** would be signed between the managing or other authority and the selected urban development fund(s), specifying the terms and conditions, as well as the targeted investments for allocating resources from operational programmes to them.

Urban development funds will select and support Public Private Partnerships (PPPs) and other urban projects, providing loans, equity or guarantees, but not grants. It would be possible for a given project to be supported partly by the non-grant urban development funds, and partly by public grants (including from operational programmes). This could include complimentary ESF interventions to allow local people to make the most of the opportunities that the urban development efforts would present. However ESF will not form part of the JESSICA fund. Other private banks or investors may also participate. Project promoters could be public, municipal or private sector enterprises, or joint enterprises involving these actors in any possible combination between them. The funds will monitor implementation of projects by final beneficiaries. They will report to the managing authorities on their activities (selection of projects, implementation by final beneficiaries).

#### Option 2 - Organising JESSICA through Holding Funds

Managing authorities have the option to organise financial engineering for sustainable urban development through the intermediary of holding funds. Holding funds are those investing in more than one urban development fund, providing them with equity, loans or guarantees. In such cases, the authorities will have the option of awarding a grant to the EIB entrusting it with the holding fund tasks.

A funding agreement would be signed between the managing authority and the holding fund, specifying the terms, conditions, targeted investments, etc. Holding funds could invest in more than one urban development fund, providing them with equity, loans or guarantees. Urban development funds are funds investing directly in public-private partnerships PPPs and other projects in the urban context. Projects approved by the funds for support will be financed only through equity or loans, and not through grants. It is envisaged that a pre-condition would be that projects would be supported only in the context of an integrated plan for sustainable urban



development.

Urban development funds will be co-managed by professionals of the banking and private sector, who should contribute financial, technical and managerial expertise and flexibility to the management of projects co-financed by the European Regional Development Fund.

#### **4. Engagement So Far**

**4.1** The MA has been aware of the development of the JESSICA initiative and has attended several information meetings with the Commission and the EIB. Clearly as the Commission concentrated resources on the approval of new programmes it was difficult to take a firm view on the relevance and suitability of the JESSICA initiative to Scotland. However, as the Commission's thinking around JESSICA has developed the MA can see real benefit in looking closely at the potential benefits that could be derived from participation. The Commission have offered to fund feasibility studies that will scope out the potential for a JESSICA initiative in Scotland.

**4.2** As well as the potential legacy benefits the relatively low level of activity in Priority 3 of the ERDF Programme also makes considering this option in some detail an attractive proposition.

#### **5. Recommendations**

**5.1** The Committee is invited to:

5.1.1 note the development of the JESSICA initiative

5.1.2 agree to charge the MA with the responsibility to enter into discussion with the Commission and EIB leading to a feasibility study that will scope the potential use and impact of a JESSICA type initiative in the LUPS programme area

**March 2008**