



Joint European Support for Sustainable Investment in City Areas • Joint European Support for Sustainable Investment in City Areas

JESSICA

A new way of using EU funding to promote sustainable investments and growth in urban areas

What is JESSICA?

JESSICA stands for **Joint European Support for Sustainable Investment in City Areas**. This initiative is being developed by the European Commission and the European Investment Bank (EIB), in collaboration with the Council of Europe Development Bank (CEB). Under new procedures, Member States are being given the option of using some of their EU grant funding, their so-called Structural Funds, to make repayable investments in projects forming part of an integrated plan for sustainable urban development. These investments, which may take the form of equity, loans and/or guarantees, are delivered to projects via Urban Development Funds and, if required, Holding Funds.



What types of projects are eligible?

Rules on the eligibility of project expenditure, using JESSICA, are the same as those on the use of Structural Funds as a whole, and also need to take account of any specific national constraints. Apart from specific non-eligible items listed in the Regulations, such as housing in some of the Member States, JESSICA may allow for more flexible management of projects, respecting at the same time eligibility rules, provided always that the projects being supported form part of “integrated and sustainable” urban development plans. Ineligible expenditure components might, for example, be included as part of a larger, multi-sector urban project, provided sufficient additional funding is attracted from other private or public sources to finance these ineligible components.

When considering which projects could make use of JESSICA funding, an integrated approach is necessary. JESSICA funds could be targeted specifically at projects such as:

- urban infrastructure, including transport, water/wastewater, energy, etc;
- heritage or cultural sites, for tourism or other sustainable uses;
- redevelopment of brownfield sites, including site clearance and decontamination;
- office space for SMEs, IT and/or R&D sectors;
- university buildings, including medical, biotech and other specialised facilities;
- energy efficiency improvements.

What is an “integrated plan for sustainable urban development”?

An integrated plan for sustainable urban development comprises a system of interlinked actions which seeks to bring about a lasting improvement in the economic, physical, social and environmental conditions of a city or an area within the city. The key to the process is “integration”, meaning that all policies, projects and proposals are considered in relation to one another. In this regard, the synergies between the elements of the plan should be such that the impact of the plan as a whole adds up to more than would the sum of the individual parts if implemented in isolation.

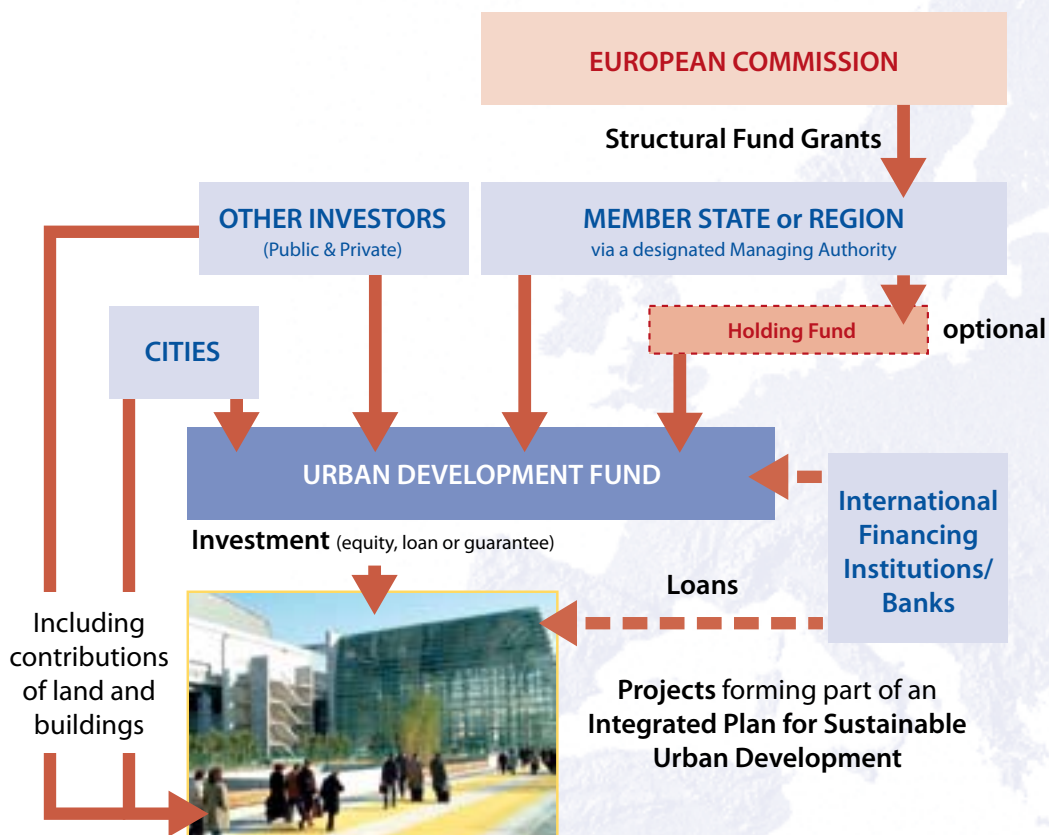
In many Member States, city-wide and area-based development plans that have been prepared and adopted in accordance with existing planning protocols are likely to satisfy such a definition. Non-statutory plans and other policy documents approved following public consultation and appropriate community impact assessment might also provide an adequate basis for integrated urban development.

With almost EUR 30 billion in lending support to urban transport and renewal projects over the past 5 years, EIB has extensive experience in preparing and financing urban development projects across Europe. Following the EC Council agreement¹ to place urban regeneration as a major common policy, EIB will step up its involvement in the sector. At the request of a project promoter, EIB will therefore also examine the possibility of leveraging its own funding resources into urban development projects supported by JESSICA.

¹ The Leipzig Ministerial Informal meeting of 24/25 May 2007



How are JESSICA funds channelled?



What is an Urban Development Fund?

An Urban Development Fund (UDF) is a fund investing in public-private partnerships and other projects included in an integrated plan for sustainable urban development. To be eligible for JESSICA funding, the UDF will need to demonstrate, amongst other things, sufficient competence and independence of management; a comprehensive business plan and budgets for undertaking qualifying projects; as well as sound financial backing. Whilst not specific on legal form, a UDF can be a separate legal entity, or be established as a “separate block of finance” within an existing financial institution. In such cases, JESSICA funds need to be separately accounted for and clearly segregated from the other assets of that financial institution. UDFs can be established at either a national, regional or local/city level in response to integrated urban development plans, project pipelines and investor interests.





When does it come into force?

The EU Structural Funds' legislative package for the programming period 2007 to 2013 provides the JESSICA operating framework². Operational procedures are now being drawn up and will take effect once Operational Programmes³ have been formally agreed with the European Commission.

To qualify to use JESSICA, Member States must include an urban agenda in their "Operational Programmes" and, ideally, should also include a statement on the potential use of JESSICA in delivering this agenda. Member States will then need to decide what proportion of their Structural Funds they would like to channel using JESSICA.

JESSICA is not a new source of funding for Member States, but rather a new way of using existing Structural Fund grant allocations to support urban development projects. It is up to Member States and Managing Authorities to decide how much of these Structural Funds to channel in this way.

What is a Holding Fund?

A Holding Fund is a fund set up to invest in more than one UDF. Whilst a Holding Fund is not a requirement for JESSICA implementation, there are several benefits for Member States in having one:

- it allows Managing Authorities to delegate some of the tasks required in implementing JESSICA to appropriate professionals. These tasks include establishing specific criteria for making investments in UDFs, appraising and recommending appropriate UDFs to invest in, negotiating contractual arrangements with as well as monitoring and reporting on the performance of UDFs;
- member States with a less developed urban investment sector can still take advantage of JESSICA funding immediately, whilst UDFs and qualifying urban investment projects are being established and implemented; and
- holding Funds allow for JESSICA funds to be combined with other public and/or private sector resources for investment in UDFs.

² These are known as Regulations and, with respect to JESSICA, include Council Regulation (EC) No 1083/2006, articles 36, 44 and 78; Regulation (EC) No 1080/2006 of the European Parliament and of the Council, articles 7 and 8; and Commission Regulation (EC) No 1828/2006, articles 43, 44, 45 and 46.

³ Operational Programmes are detailed strategies, agreed between the Member States and the European Commission, covering the use of EU Structural Funds and match-funding contributions during the 2007-2013 period.



What are the benefits of using JESSICA?

The principal benefits are:

- **recycling of funds** – as long as JESSICA funds have been invested, by UDFs, in eligible project expenditure before the expiry date of the Structural Fund programming period (n+2, i.e. by the end of 2015) then any returns/receipts generated from that investment can be either retained by the UDFs or returned to Managing Authorities for reinvestment in new urban regeneration projects. For those Member States facing a prospect of reduced EU grant funding in the next programming period, JESSICA offers the opportunity to create a lasting legacy for the current funds;
- **leverage** – a significant implied advantage of JESSICA is its potential ability to engage the private sector, thereby leveraging both further investment and, perhaps more critically, competence in project implementation and management. Private sector investment can, in some instances, meet the requirements for the Member State's match-funding contribution⁴. Despite the fact that JESSICA allows grant receipts to be “transformed” into repayable investment, they are not repayable to the European Commission and should therefore not be regarded as public sector debt;
- **flexibility** – JESSICA provides a flexible approach, both in terms of broader eligibility of expenditures and in the use of JESSICA funds by way of either equity, debt or guarantee investment;
- **expertise and creativity** – Member states, managing authorities, cities and towns will benefit from expertise of the banking and private sector. JESSICA could also act as a catalyst in urban areas to enhance the investment market and therefore complement other initiatives or sources of funding that may already exist in the Member State. Involvement of the private sector, however, will still need to take account of “State Aid” rules.

⁴ Regulations require that Member States make a contribution, alongside the Structural Funds, to their Operational Programmes. This percentage of “own funds” can be different in each Member State.



What is EIB's involvement in JESSICA?

As stated previously JESSICA is a joint policy initiative, launched by the European Commission and EIB. EIB involvement in JESSICA is to:

- advise and assist national, regional and local authorities in implementing JESSICA;
- promote the use of UDFs and best practice across Europe;
- act as a Holding Fund, where Member States or Managing Authorities request this.

The implementation of JESSICA should take into account the existing urban, social and economic, as well as the legal and administrative context at national, regional and city level. This may require preparatory studies for regions and cities of the EU, taking into account the general principles set out above for the JESSICA initiative.

The European Commission⁵ with EIB (the CEB is also participating and contributing to this effort), in cooperation with Member States and managing authorities, will seek to identify the needs at the ap-

⁵ Directorate General for Regional Policy (DG Regio)

propriate level (national, regional or city level) and to carry out such JESSICA preparatory evaluations in 2007 and, where necessary, in 2008. The European Commission is supporting the financing of these studies, which will be carried out by EIB.

Who to contact?

If you have more questions on JESSICA, please contact:

The JESSICA Task Force

European Investment Bank
100, boulevard Konrad Adenauer

L-2950 Luxembourg

☎ +352 43 79 - 83069

☎ +352 43 79 - 63099

✉ jessica@eib.org

www.eib.org/jessica

ISBN 978-92-861-0658-3



9 789286 106583