



FINAL REPORT

JESSICA EVALUATION STUDY FOR GREECE

on behalf of

EUROPEAN INVESTMENT BANK

This document has been produced with the financial assistance of the European Union. The views expressed herein can in no way be taken to reflect the official opinion of the European Union.

Friday, 17 June, 2008

EXECUTIVE SUMMARY

JESSICA Community Initiative 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.

Focussing on Greece, urban centres are characterised by a range of dynamic factors and problems referring at the same time to opportunities and to limitations on their development. Despite the differences in population size that they display, Greece's urban centres have much in common concerning their development mechanisms, in the sense of economic as well as spatial development. The development and improvement of infrastructure, as carried out in the framework of specific national and Community policies, is contributing to and speeding up the networking process. Although, the State has made some critical intervention in planning through the National Framework for Spatial Planning and Sustainable Development (consisting of a General Framework Plan, five Specific Framework Plans and twelve Regional Framework Plans), large cities are facing an intensive, uncontrolled urbanization and shortage of open space.

There are two types of growth for vacant pieces of land; new activities, services, residential and administrative development are seeking vacant land at the urban fringe, or major transformations and infill development are taking place at deteriorating industrial areas of the urban core or waterfront. The latter includes many industrial and manufacturing sites that face significant urban and social decline, unemployment and extended contamination. Therefore, they provide the most opportunities for urban regeneration, which is the scope of JESSICA initiative. Other issues concerning urban development in Greece are that many projects have slowed down progress, mainly due to bureaucratic procedures and exaggerated legislative frameworks involved, and many delays have been noted in CSF funds' absorption. Besides, most Urban Development projects are often disjoint, incoherent, fully dependent on state financing,

or unable to generate financial profit that would enable them to be sustainable after the fulfilment of the external state financing.

For the period 2007-2013, Greece has proceeded to the preparation and submission of the National Strategic Reference Framework (NSRF) to the European Commission, i.e. the framework for fund planning at a national level. A large share of it has been committed for sustainable development through either Sectoral or Regional Operational Programs that will enable JESSICA initiative to proceed more effectively.

JESSICA is expected to provide incentives and leverage to complement public funds with private capital and long-term loans, enhance the recycling of public funds invested in revenue-generating projects and set up the framework and the conditions for a successful implementation of projects, namely through the setting up of a Holding Fund (HF), as a fund of funds, in order to invest in more than one Urban Development Funds. In particular, the main advantages of using a HF are that projects are funded in advance (as opposed to financing through Structural Funds) and amounts paid-in are accounted for as interim payments for EC law purposes. In addition, Managing Authorities have also the opportunity to pool skills and expertise thus establishing new, modern, more efficient and flexible financial products and governance models for their urban development plans. In this context, JESSICA is expected to be an innovative tool that can produce new financing schemes, mobilise key players for urban development projects, promote more and better PPPs and leverage additional loan capital from new sources.

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 separately.

Considering the aforementioned, Public Private Partnerships (PPPs) are considered a viable means of procurement for public sector projects for infrastructure and services in many countries throughout the world. By combining the best talents and resources

of the public and private sector respectively, PPPs can deliver value for money, greater efficiency and accelerated delivery of major projects.

JESSICA initiative

The JESSICA initiative is expected to provide the Managing Authority of the Structural Funds programme with the opportunity to take advantage of outsourced expertise and to have greater access to loan capital for the purpose of promoting urban development, including loans for social housing, if and where appropriate. Since the JESSICA initiative does not include support through a grant scheme, its contribution to Urban Development Funds will have a revolving character and will enhance the sustainability of the involved investments. The JESSICA contribution can be utilised complementary to various financing structures to be decided by the parties, such as loans provided by the Urban Development Funds to the final beneficiaries backed by guarantee schemes established by the funds and the participating banks.

This study is intending to exam two possible approaches including the basic steps starting from the contribution to the initiative and leading to the final project support phase, namely direct financing of the Urban Development Funds and financing through Holding Funds. In developing the second approach, the Managing Authority has the ability to organise financial schemes for sustainable urban development through the intervention of Holding Funds. Holding funds are defined as funds of funds, namely investing in more than one Urban Development Fund, providing them with equity capital, loans or guarantees. In such cases the authorities will have the option of awarding a grant to the EIB, thus entrusting the latter with the holding fund tasks.

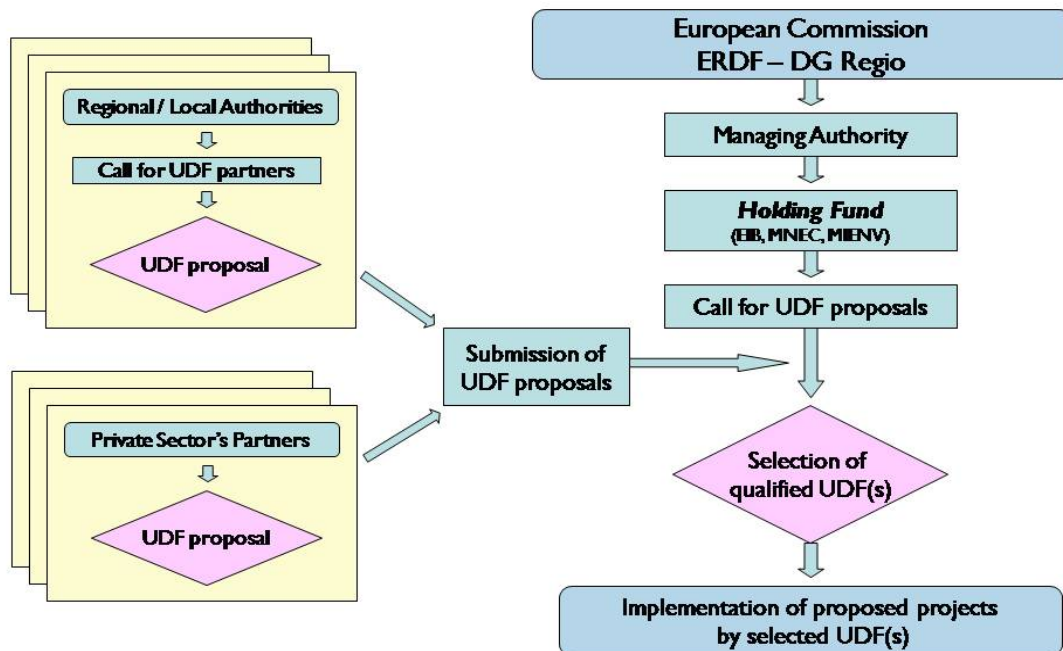
A funding agreement can be signed between the Greek Government or Managing Authority and the EIB acting as a Holding Fund manager, specifying the terms, conditions, targeted investments, etc. Urban Development Funds invest directly in Public-Private Partnerships (PPPs) and other projects within the urban context. Projects approved for receiving financial support, will be mainly financed through equity capital or loans; not through grants. A prerequisite would be that projects shall 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 in accordance with the EU regulations valid and in force from time to time.

Advantages of JESSICA Implementation in Greece:

- Increasing investment needs for sustainable development of cities and towns
- Availability of public funds in the future may be scarce
- Need for private and banking sector contribution
- Administrative and technical capacity within urban authorities often does not correspond to investment needs
- Innovative financing in urban sector
- Public finance and debt are not aggravated
- Technical, financial, managerial capacity and expertise contributed by IFIs, private sector

JESSICA APPLICATION WITH THE PARTICIPATION OF A HOLDING FUND



JESSICA Added Value

The analysis concerning Greece shows that there is a great potential for urban development projects. Many projects have **slow progress**, mainly due to bureaucratic procedural obstacles and exaggerated legislative frameworks involved. For these reasons, many delays in CSF funds' absorption have been observed in the past, while a considerable amount of productive factors/inputs remain excluded from urban development projects due to the aforementioned deficiencies. Another reason that generates obstacles in the implementation of urban development projects is the fact that these projects are disjoint, incoherent and most of all, mainly financed by the state and unable to generate significant financial profit that would enable them to operate autonomously and be sustainable after the fulfilment of the external state financing.

On the other hand, JESSICA initiative **provides incentives and leverage** to complement public funds with private capital and long-term loans, by bringing together public funds, private investors and banks into partnerships, thus combining equity capital, loans, guarantees and other forms of financial products intended to invest on project implementation in the field of urban regeneration and development. Under the JESSICA initiative, and subject to the conditions and operational procedures applied by the EIB and the CEB or other international financial institutions or private banks and investors, long-term loan capital would be supplemented, either at the level of supported UDFs or at the level of individual projects.

Resources from operational programmes invested under JESSICA by Urban Development Funds or Holding Funds, and repaid to the operational programme or the competent public authority will be reused for the benefit of urban development projects. Interest generated by payments from operational programmes to UDFs or holding funds, will also be used to finance urban development projects. Long-term sustainability of public investment would be then reinforced through the revolving character of the Structural Funds' contribution to UDFs specialised on the investment in urban development. The **recycling of public funds** invested in revenue-generating projects under JESSICA should create a lasting legacy for the Structural Funds and national investment in the urban sector in Greece.

JESSICA is expected to set up the framework and the conditions for a successful implementation of projects by **pooling skills and expertise** not only from cities, private and banking sectors, but also from the wider public sector at the national and regional level. Moreover, apart from setting up the context and incentives for innovation and the necessary change of attitude of public actors and especially cities, JESSICA should also contribute to the establishment of new, modern, more efficient and flexible financing schemes and governance models for urban development.

The inherent shift in the JESSICA initiative from pure public subsidies to recyclable public investment in partnership with the private and banking sector requires a change in one's mindset. Not all public sector bodies are able to be geared up to this change. When national or federal governments set a strong political, legal and administrative context for JESSICA, the prospects for success of JESSICA in cities and towns will certainly be stronger. However, the existence of local capacity and expertise in the preparation and structure of financial engineering instruments for urban renewal and regeneration projects is crucial. In reality, the existence of such capacity and expertise in regions and cities is rather variable, and investment take-up under JESSICA will depend on willingness towards innovation and speedy building capacity.

Concluding remarks

DTZ, a specialist property consultant, undertook this study with the scope being to look at the possible application of JESSICA from a property-led regeneration point of view. The outcome of the study has identified the existence of significant opportunities in this specific area. Nevertheless, as this has been a scoping study, it is worth noting that we anticipate that additional studies would follow concentrating on the implementation of the JESSICA initiative in specific areas and/or sectors in the country.

In this context, we would expect to see the launching of studies focussing more specifically on the rehabilitation potential of deprived urban areas, including basic infrastructure works, as well as on water and waste management, energy networks and energy efficiency, etc. In particular, it seems logical that emphasis be given on promoting investments in energy efficiency and renewable energy in order to improve the energy performance of the building and industry sectors offering opportunities for the highest savings in energy and reduction in CO₂ emissions. In this way, an

investment programme should be planned with a view to pursuing specific objectives, namely stimulating energy efficiency investments: (a) in all kinds of buildings - residential, industrial, office, schools, public buildings - by proposing retrofitting measures for the improvement of building stock through the provision of appropriate financing; and (b) in machinery, ventilation systems, air conditioning and cooling, processing of heat, drying technology and electricity etc. by making appropriate financing available in these and/or other similar fields and systems. Moreover, emphasis should also be given in assessing the maturity level of the market - namely public sector, legislative framework, private investors etc. - for addressing the increasing solid waste management problems, thus paving the way for the setting up of sustainable solid waste management plants and/or similar activities, such as separation and recycling, in the near future.

In addition, whilst Section 2 provides some background on the PPP market in Greece, we would recommend that further studies undertaken should also address the possible use of PPPs in some of these specific sectors. This could, possibly, be undertaken in collaboration with the Special Secretariat for PPPs established within the Ministry of Economy and Finance.

To conclude, the success of JESSICA will largely depend on the willingness and capacity of the public sector at national, regional and especially city level to innovate, to seek for and identify appropriate projects, models and investment conditions for the operational pooling of public, private and banking sector resources. Experience shows that the private and banking sector is sufficiently flexible to respond to calls for specific, well-defined, well-prepared and balanced public-private partnerships or other revenue-generating urban projects.