

JESSICA: Joint European Support for Sustainable Investment in City Areas

To help the authorities in the Member States of the European Union exploit financial engineering mechanisms to support investment in sustainable urban development in the context of cohesion policy, and to provide new opportunities to

Managing Authorities responsible for the next generation of cohesion policy: these are the main objectives of Joint European Support for Sustainable Investment in City Areas (JESSICA), a new policy initiative of the European Commission supported by the European Investment Bank (EIB).

Under proposed new procedures, Managing Authorities (MAs) in the Member States will be allowed to use some of their Structural Fund allocations – principally those supported by the European Regional Development Fund (ERDF) but also, where appropriate, the European Social Fund (ESF) – to invest in Urban Development Funds (UDFs) to accelerate investment in urban areas.

Other International Financial Institutions (IFIs), as well as the European banking and private sector, are also expected to follow suit. The Council of Europe Development Bank (CEB) has already agreed to participate.

JESSICA responds to the request by several Member States and the European Parliament to give special attention to the need for renewal and/or regeneration of certain urban areas. The success of the URBAN programme has also contributed to this increased emphasis on the urban dimension of economic and social cohesion, and justified the need to offer Member States the opportunity to dedicate additional resources to expanding the acquired practice across the EU.

The road to JESSICA

Against this backdrop, and following the Bristol Accord that established the principles of a common EU urban policy, a consensus was reached on the need to both increase the momentum of urban renewal and regeneration across Europe and supply investment funds to support relevant projects in pursuit of more sustainable urban communities.

The role that IFIs, which have substantial experience in this area, can play in this endeavour was quickly recognised by the Commission. A proposal to enhance cooperation between the Commission, the European Investment Bank and the Council of Europe Development Bank was presented at a highlevel conference held in Brussels on 24 November 2005 on the theme of “Financing growth and cohesion in the enlarged EU”, which showed widespread support for this concept. A Memorandum of Understanding to coordinate the efforts of the three parties on urban projects was subsequently signed on 30 May 2006.

JESSICA has been launched with a view to leveraging in additional resources that are suitable for public-private partnerships (PPPs) and, in general, for urban renewal and development projects in the regions of the EU. The initiative is also expected to contribute financial and managerial expertise from specialist institutions such as the EIB, the CEB and other IFIs and to create stronger incentives for successful implementation by beneficiaries, by combining grants with loans and other financial tools. Long-term sustainability will be reinforced through the revolving character of the ERDF (and ESF, where eligible) contribution to funds specialising in investing for urban development.

How JESSICA works

JESSICA allows the use of interim payments by MAs from Structural Funds to invest in UDFs through recyclable and recoverable financial mechanisms, essentially equity, guarantees and subordinated loans. Recovered funds may be reinvested through UDFs or returned to the MA to support other urban projects, including through conventional subsidies. UDFs may take different administrative forms and be devoted to investments in different areas. Their common features are a market-driven approach, as they are expected to at least recover their investment, and the fact that they must invest in projects within well-defined integrated urban renewal and development plans.

Managing Authorities may decide to invest directly in UDFs or, given the difficulty of managing non-grant instruments, channel funds to UDFs using holding funds (HFs), with the option of employing the EIB as HF manager if this is the MA's preferred option. Under this alternative route, HFs will select the UDFs according to the conditions defined by the MA.

It is expected that the JESSICA initiative will also facilitate the provision of additional financial support from the EIB (always subject to the EIB's conditions and operational procedures), CEB and other banks and would also attract additional equity capital, notably for PPPs and other projects supported by UDFs.

An evaluation study, commissioned by DG REGIO, has recently been launched by the EIB to establish the feasibility and ensure effective implementation of the JESSICA initiative. This study will review prevailing urban renewal and development actions, indicating the key administrative competencies and processes; identify the existing financial vehicles for urban investment; analyse potential market failures and how financial engineering actions and products could address any perceived deficiencies; and establish the interest in using UDFs to channel such actions.

A preliminary phase, started in September 2006, will provide guidance on how to develop JESSICA, in particular on how recyclable financing mechanisms could work in practice to promote urban renewal. The background information will be collected from a small but representative sample of Member States and regions.

JESSICA offers new opportunities for the use of Structural Funds for the integrated development of urban areas and allows a continuous availability of funds for revenue generating components of urban renewal and development programmes. Building on a market-driven approach that is essential for the success of UDFs, the Structural Funds used in JESSICA are expected both to leverage substantial amounts of investment into areas in need of social cohesion and to speed up their transformation.