"Strumenti finanziari europei per la crescita sostenibile delle aree metropolitane"

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The need for sustainable urban impact investing

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 - integrated approach to urban strategies

Economic crisis	Financial and Real Estate crisis > Governmental bail-outs > Impact on public sector finance > Deleveraging discipline > Viability of urban investment
Ageing	Transformation in age/migration structure > Impact upon public finance, labour and housing markets, infrastructure, healthcare and communities
Decarbonisation	Urban areas under climate change impact > Decarbonisation/ Denuclearisation of EU economy > Impact upon economy, social, environmental factors > Smart grid technology
EU spatial integration	'Single market for the cities' > 1200-2000 functional urban areas compete for location of resources and economic activity > New spatial equilibrium

Integrated urban investment strategy for highly dense urban areas focused on:

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).

Assessing the additional impact of investments

The traditional calculation of "Direct Effects" of the project:

Scale: a greater quantity of project output delivered in an area;

Timing: activity may happen earlier than would otherwise have been the case;

Specific area/groups: the extent to which target beneficiaries actually benefit from a project or intervention;

Quality: the change in quality of the outputs, area indicators as a result of an intervention.

These elements have to be corrected to consider:

Leakage effects: the proportion of project outputs that benefit those outside the programme target area or group.

Displacement effects: the proportion of project outputs accounted for by reduced outputs elsewhere in the target area

Substitution: the extent to which an activity is being substituted to take advantage of public sector grants or programmes.

Multiplier Effect: economic effect associated with additional local revenues or expenditure

This basic methodology shows some weaknesses in cities characterised by rapid changes in population profile or prospective decline. More powerful control tools must be developed to take into account the key variables affecting the urban system in order to assess the capacity of the area to create the resources necessary to "sustainable" regeneration processes.

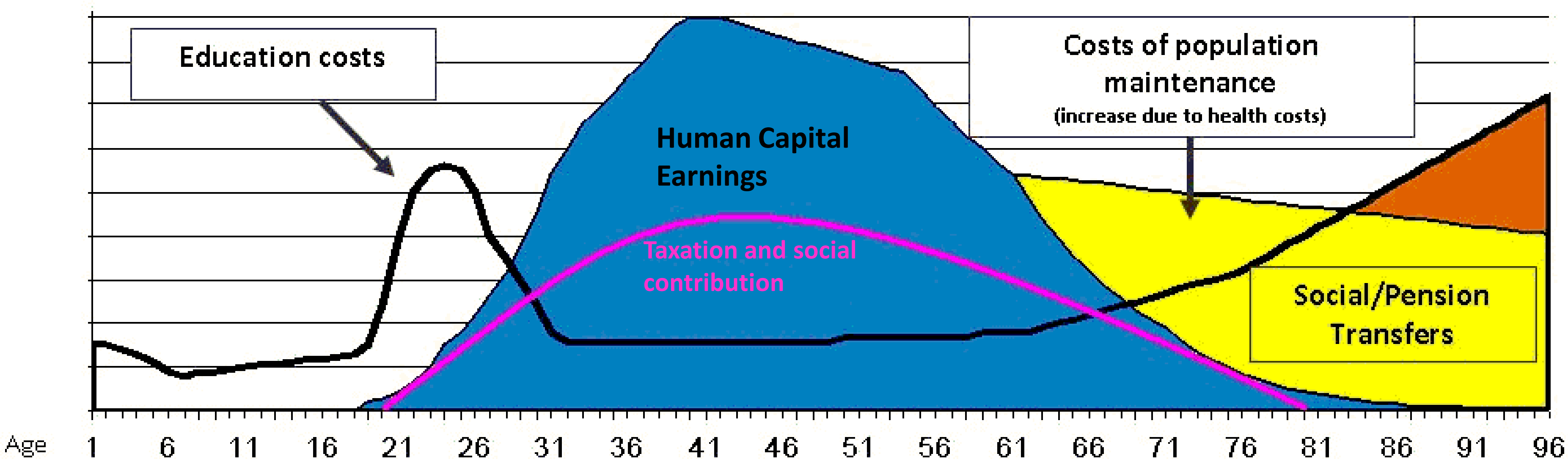
EU demographics impact on public finance

Ageing (increasing old-age dependency ratio)

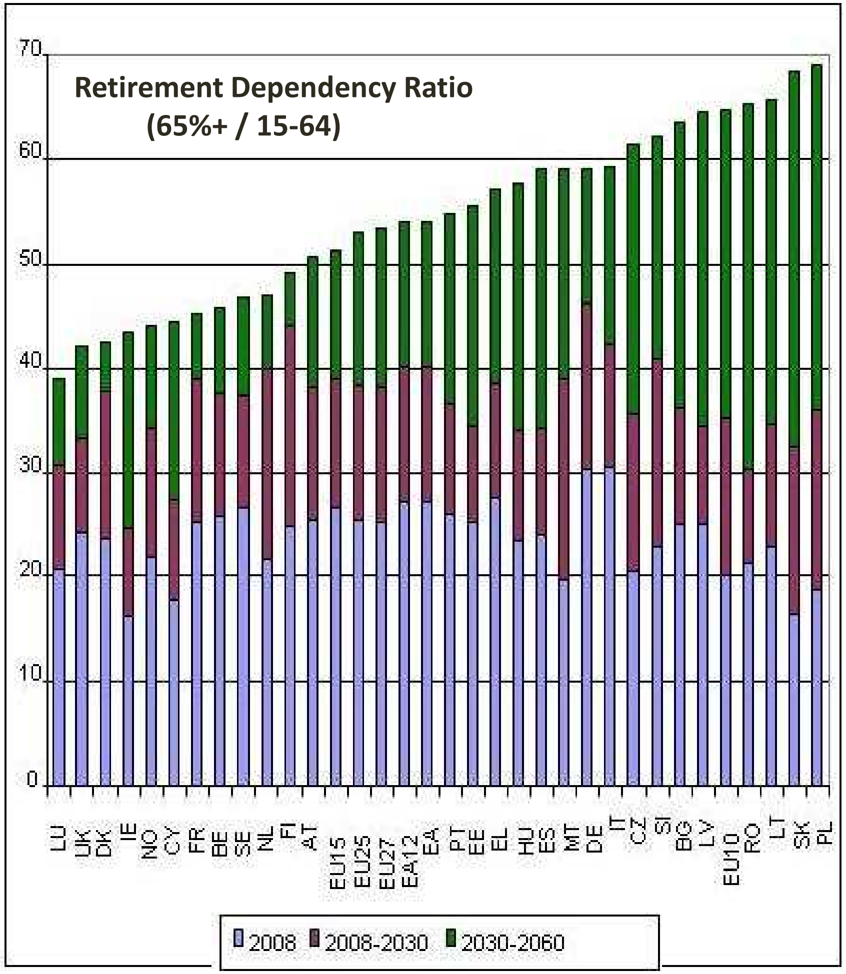
Impacts public budgets (lower GDP, higher pensions expenditure)

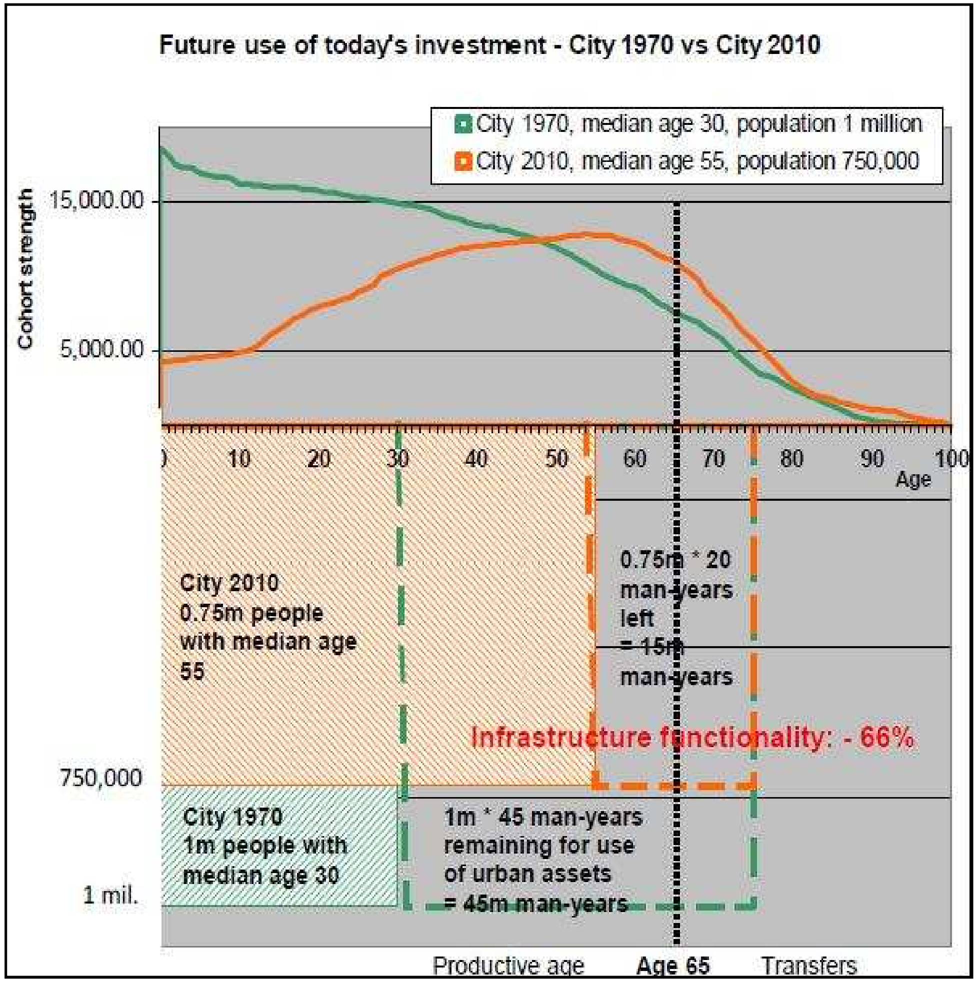
$$GDP = \overset{\substack{\textbf{Productivity} \\ \textit{Ratio}}}{\frac{GDP}{Employees}} \times \overset{\substack{\textbf{Employment} \\ \textit{Rate}}}{\frac{Employees}{Active\ Population}} \times \overset{\substack{\textbf{Age Structure} \\ \textit{Indicator}}}{\frac{Active\ Population}{Population}} \times \overset{\substack{\textbf{Demographic} \\ \textit{Forecast}}}{Population}$$

HUMAN CAPITAL PRODUCTIVITY AND COST BY AGE STRUCTURE



The impact on common infrastructure performance





Functional urban areas as optimal catchment area

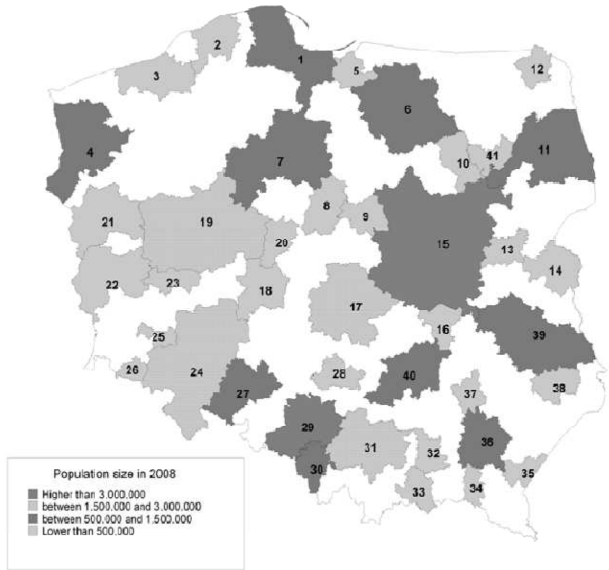
Functional urban areas as dense labour/energy/mobility systems:

- **Major labour hubs** – concentration of job and education opportunities imply high levels of mobility and need for urban infrastructure, efficient urban organisation and planning improves long-term resilience of local labour markets
- **Centres of innovation** – urban density spurs the development of new ideas and provides the network and the infrastructure for new industries
- **Hot spots for greening and efficiency gains** – EE/RE for housing/public building and efficient urban transport key components in the 20-20-20 EU energy strategy

Holistic Approach ➔ Urban wealth growth

(Natural, Fixed, Human, Economic)

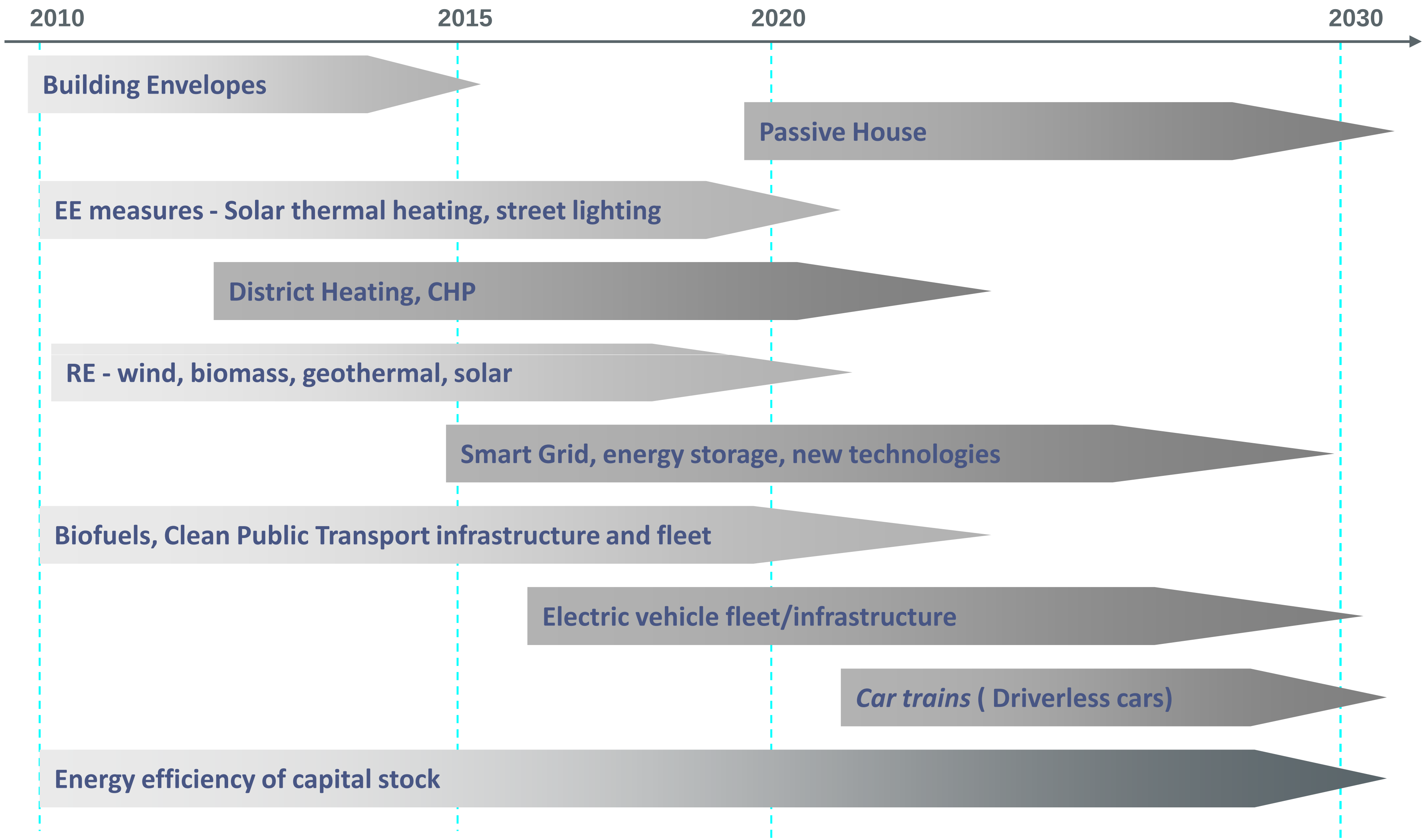
- **Jobs & Economic Activity**
- **Financial / Fiscal**
- **Sustainability**
- **Capital & Enterprise Transfers**
- **Human Capital Ageing / Migration**
- **Asset Value Creation Process**



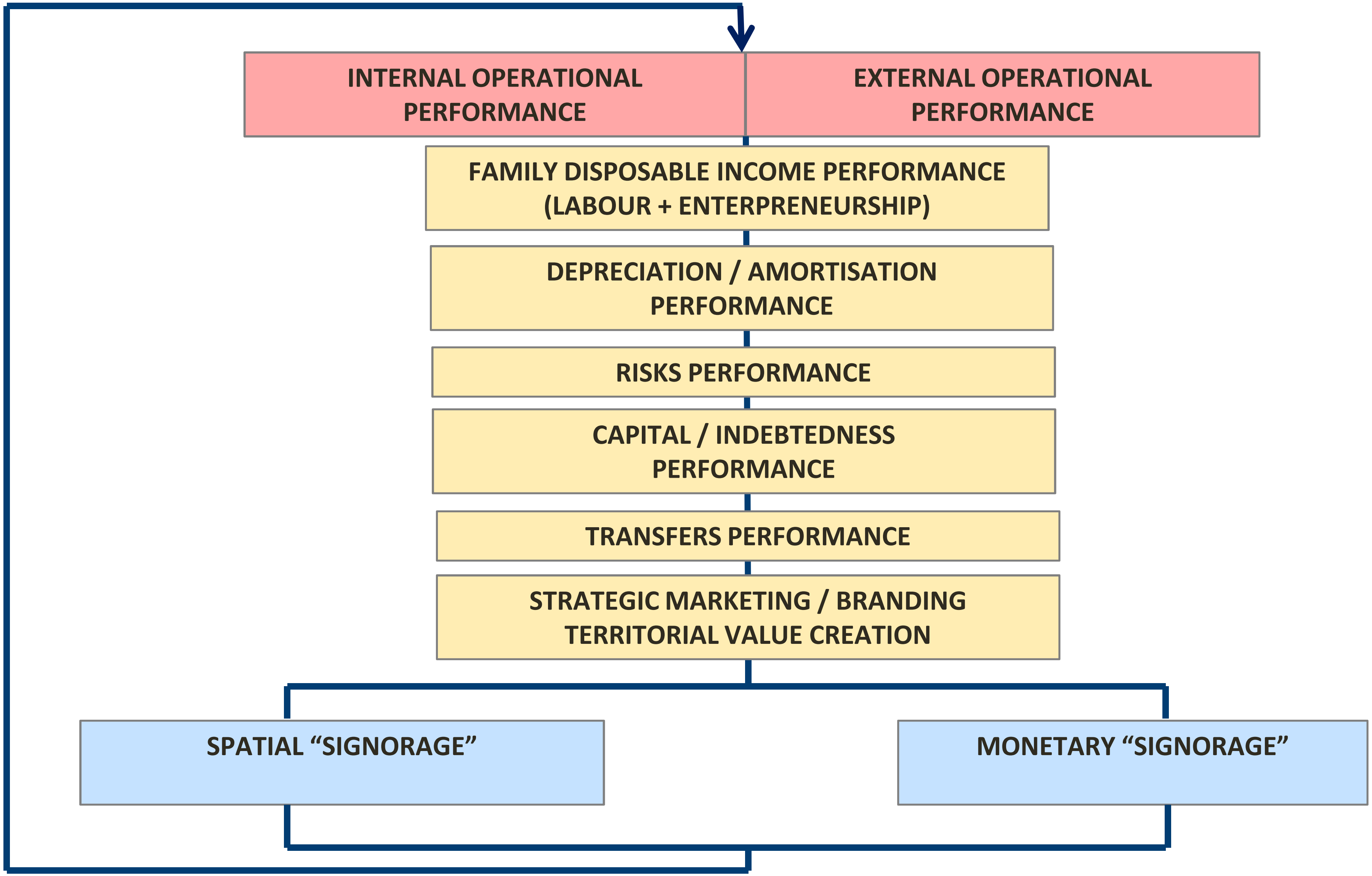
1. 1. Gdańsk; 2. Słupsk; 3. Koszalin; 4. Szczecin; 5. Elbląg; 6. Olsztyn; 7. Bydgoszcz; 8. Wloclawek; 9. Plock; 10. Ostrolelka; 11. Bialystok; 12. Suwalki; 13. Siedlce; 14. Biala Podlaska; 15. Warszawa; 16. Radom; 17. Lodz; 18. Kalisz; 19. Poznan; 20. Konin; 21. Gorzow Wielkopolski; 22. Zielona Gora; 23. Leszno; 24. Wroclaw; 25. Legnica; 26. Jelenia Gora; 27. Opole; 28. Czestochowa; 29. Katowice; 30. Bielsko-Biala; 31. Krakow; 32. Tarnow; 33. Nowy Sacz; 34. Krosno; 35. Przemysl; 36. Rzeszow; 37. Tarnobrzeg; 38. Zamosc; 39. Lublin; 40. Kielce; 41. lomza

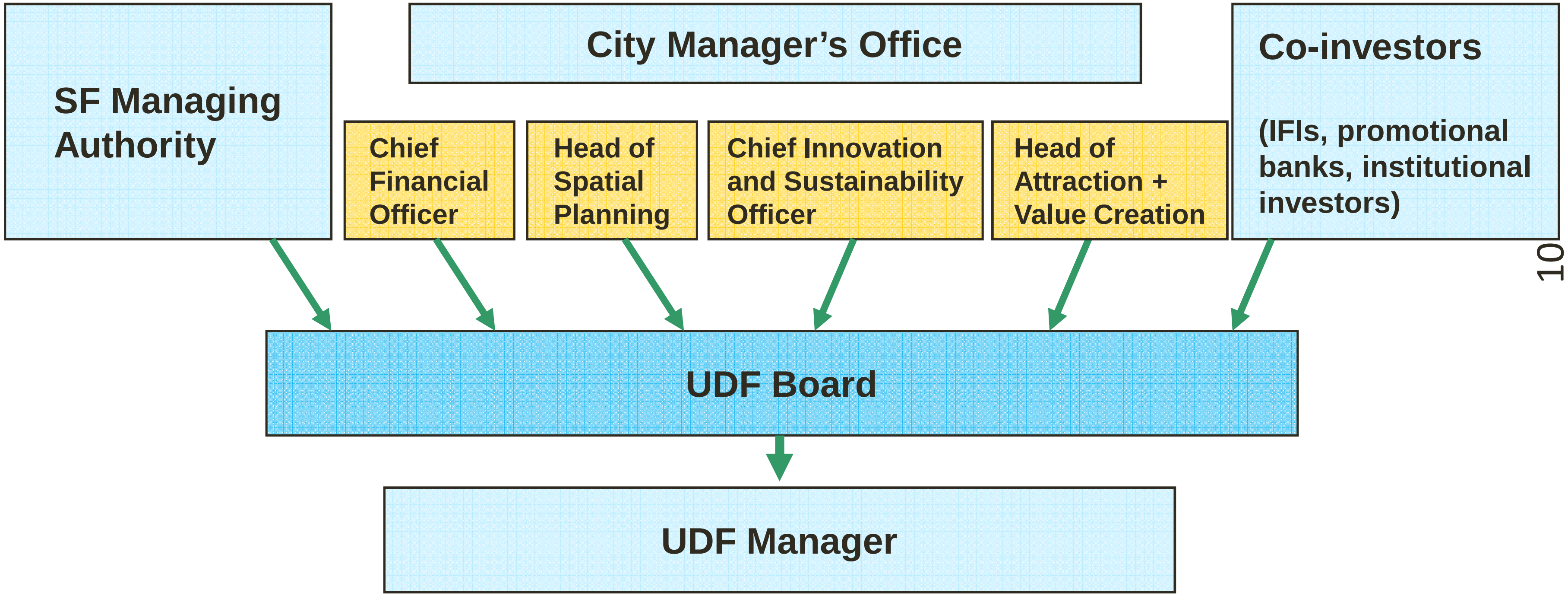
Source: OECD calculations based on CSO (2010).

Dynamic approach to Smart City Investments



Territorial systems: cash-flow cycle modelling





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

How to structure DFI Products in the next programming period

EIB JESSICA services

- Fund and structuring services (FSS)
- Holding Fund (HF)
- Middle Office (MO)

National Managing Authorities

Strategy options for DFI utilisation:

i. National dedicated Priority Axis (mono-/multi-thematic)
ii. Regional dedicated Priority Axis (mono-/multi-thematic)
iii. Integrated Territorial Investment Strategy (urban/local-based)
iv. Priority Axis for Financial Engineering Instruments (national/regional)

Standard Fund/Product Typology

	Competitive/Smart City	Energy Efficient City	Resilient/Social communities	Rural investment product
11 Thematic objectives	1. ICT 2. RDI 3. Public Administration 4. Education and training 5. Sustainable transport	6. Climate Change 7. Environmental protection 8. Low-carbon economy	9. Competitiveness of SMEs & … 10. Employment 11. Social inclusion	9. … agricultural sector
	+ Optional thematic objectives	*+ Optional thematic objectives*	*+ Optional thematic objectives*	*+ Optional thematic objectives*
Priority area targets	High growth/innovation metropolitan poles	Eastern and Northern European countries	Problematic/high unemployment urban areas	Rural areas

Lessons from the experiences – Lesson 1

- **Issue:** involvement of the banks and alignment of their investment criteria.
- Financial intermediaries play a key role in investment selection and co-financing of projects, which often translates in pressure to operate outside mandate barriers.
- Experience says that banks select projects using an "adverse selection" strategy: good projects are kept on balance sheet, while risky projects are often "off-loaded" and/or financed through third parties' resources ("JESSICA type").

Solutions:

- Modification of the call for tender, change in incentive structure ("performance fee"), use (creation) of professional Fund Managers (scarcity of these players in the sectors);
- **Equity for Lending:** provision of equity-type instruments in exchange for lending through SF. Financial institutions will be forced to select "good" projects as they will retain the investments on their balance sheets;
- Definition of benchmarks for impact investing in targeted urban transformation.

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