



Evaluation study – implementation of JESSICA instruments in Wallonia

Final report

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Executive summary

This report assesses the conditions of success through which the financial instrument JESSICA could be implemented in Wallonia. JESSICA is a financial engineering device contrasting with subsidies currently granted by the ERDF under the form of grants to support urban development. With this financial instrument 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.

The overall assessment of urban and environmental planning in Belgium and in Wallonia reveals one the one hand a wide dispersion of policy instruments at various layers of decision-making (federal, regional, local) and on the other hand the lack of an integrated vision of urban regeneration, with the noticeable exception of two devices: urban renovation and urban revitalization. These instruments do not specifically aim at biggest cities of Wallonia and are not thought as part of a policy devoted to cities as such in the regional context. However, as in other European countries, a series of initiatives are being taken to incrementally implement sustainable development criteria in urban contexts. There is therefore in Wallonia a potentially fertile ground for implementing an integrated urban policy which could be supported by an instrument like JESSICA.

The reports also analyses the projects that are supported by ERDF. Since 1994, these projects have been implemented in some large Walloon urban agglomerations, more specifically in the Province of Hainaut and in the industrial area of Liège. The programming period 2007-2010 for the "Convergence" area (Hainaut) and the "Competitiveness" area (rest of Wallonia but heavy focus on Liège) are in line with this tendency. Axis 3 of each of the programs is specifically dedicated to "sustainable and integrated territorial development. At the heart of the strategy of the two operational programs, one finds the will to revitalize urban areas. Out of the 650 projects that were submitted to be supported by axis 3, 214 were eventually selected by the Walloon Region. Their final choice has been guided by principles of agglomeration and concentration of resources in the framework of portfolios of structuring projects, in order to avoid dispersal.

Among those projects, we selected two to study the feasibility of JESSICA, along with a third project, not eligible to the ERDF, but which had an interesting potential according to the criteria of a financial engineering tool, particularly a capacity to generate revenues. Our report also shows that, if the whole of the financial envelope has been attributed to the 214 projects, the expense levels were very modest at the time of writing (situation on the 16 July 2009).

The overview of the Walloon institutions actually in capacity of investing themselves in a UDF has delivered a modest result, especially as far as operational management is concerned. This modesty can be explained by the fact that the amount of operators having the necessary cash-flow to invest in JESSICA is limited. By contrast, there are many regional and local actors that could be involved in the system and invest at the scale of projects which could in turn be supported by a UDF. Some key-actors, a.o. municipalities and thematic operators, have expressed a formal interest in benefiting from such an instrument. There is therefore, possibly, a demand and an offer to manage, but feasibility conditions must be more in-depth analyzed on the basis of concrete example, like those presented in the report.

JESSICA stands also as an interesting instrument for the setting up of public-private partnerships in the territories. Our study points out the rather exploratory character of reflections about using such instruments in Wallonia. The study also identifies several paths explored by the Region to pursue the P.P.P. thinking.

The analysis of case-studies is focused on three Walloon “pilots”, each having some relevance according to the JESSICA mechanism:

- the « Pré-Madame » case in Herstal is concerned with the renovation of an industrial building to be transformed into a mix of housing and services by a private entrepreneur
- the project portfolio « Ecopôle » in Charleroi deals with the regeneration of industrial green fields in order to establish an ambitious business and economic park. It is a project that exemplifies many others in Wallonia;
- the project of Congress Centre of Mons goes into the wider context of urban regeneration of the city centre, which consists of several public interventions. This Congress Centre is one of the most important ones in terms of financial investment.

The same methodology has been used to explore these pilots:

- identification of the key stakeholders;
- identification of the costs / revenues structure ;
- phasing and timing of the cost/revenue structure, taking into account the reality of the calendar of the projects as well as of the impact of the financing mechanism ;
- setting up of various types of financing scenarios (with or without the use of a UDF, using loans or equity, etc. ;
- research for improvement solutions.

Generally speaking, the analysis of these three case studies has illustrated three important missions which an urban development funds (UDF) could fulfil in Wallonia:

- UDF as credit source : JESSICA could be used as credit provider for complex projects already well prepared by other actors who themselves meet investing criteria set out by the UDF (financial criteria but also some quality regarding the content of the project);
- UDF as management device for large projects set up in public-private partnership frameworks: JESSICA would then facilitate the management of the setting up and of the financial flows linked to complex projects, in which specialized private partners are needed to ensure performance.
- UDF as a guarantee for effectiveness in large subsidized projects: JESSICA would then offer a framework for finding financial improvement solutions in heavily subsidized contexts.

More specifically, the following elements can be pointed out :

- the project « Pré-Madame » has highlighted the synergies and complementarities that can be developed between public and private actors in order to facilitate the implementation of mixed projects (economic and housing activities), in a context where it was not possible before (given the fact that ERDF cannot be used to finance housing as such). Moreover, this project is made possible thanks to the financial intervention of the UDF by reducing the financing costs for the private sector and allowing for reasonable margins, which was not the case without the UDF;
- the Congress Centre project of Mons has emphasised the fact that the JESSICA mechanism could offer better results than classical grants insofar as it reduces risks linked to building, commercial or urban planning aspects of large project (e.g. football stadiums, congress centres, concert halls, ...). It would do so by ensuring a better distribution of tasks and risks between public and private partners and by ensuring a more efficient use of resources through a mix of financing mechanisms. Contrary to the baseline scenario where the financing of the project would exclusively come from traditional subsidies (grants), and this up to 22 millions Euros, the optimised scenario would consist of financing the project in combining subsidies (12 millions), loans (8 millions) and own resources (2 millions). A positive difference of 10 millions would result of this operation and could be reinvested elsewhere by the city of Mons;
- the project portfolio « Ecopole » has shown that the JESSICA framework could help finding improvement solutions in financing projects, a.o. through the seeking of partnerships with land owners actually farming the fields, through a more effective phasing of the stages of the

project (more in line with the distribution of the fields) and by aligning selling prices with the market. The improvement generated by these scenarios would therefore allow to complete the project by complementary and more profitable investments, where the share of subsidies would not amount 8,7 millions, as in the baseline scenario, but of 2,9 millions (the remaining being financed up to 14 millions by loan and up to a bit less than 6 millions by own resources).

On the basis of these three case studies, three scenarios have been developed for the implementation of JESSICA in Wallonia. These three scenarios extrapolate the case-studies in order to propose schematic types of UDF. According to their ambition and to the type of project (eco-neighbourhood, large and complex project, integrated instrument), the scenarios evidence the interest but also the constraints linked to the implementation of a refundable financial instrument like JESSICA. According to the cases and the invested amounts, the Region can, through this instrument and a specific management structure, generate more or less ambitious financial leveraging effects but anyway with an interesting return. What must above all be bore in mind is that these scenarios imply major changes in the way structural funds are being spent in Wallonia and must meet feasibility conditions, in particular:

- the availability of ERDF money to feed the UDF – these budgets are currently being granted and thus formally not available -;
- failing this, the mobilization of non European resources to feed a UDF, from existing resources;
- the implementation of supporting mechanisms differing from the “traditional functioning” of structural funds in the Walloon urban context;
- a overall revision of the Walloon instruments designed to support urban regeneration;
- the position that international financial institutions will adopt towards Wallonia and the proposed UDF structure that will arise.

What appears as an essential success factor is the necessity to step out of a system where public subsidies are dominant in order to lead the project managers to think of their project with the intelligence implied by a UDF. The proposed scenarios are in this respect revealing of the room for maneuver which can be guaranteed in one system or the other.

In crisis periods – and possibly rather long crisis periods – it can also be wise, as far as the Walloon government is concerned, to utilize its financial resources with more efficiency and with the support and the expertise of international financial institutions.

Two major conclusions can be drawn from the report :

- on the one hand a strategic interest to move towards the implementation of JESSICA in Wallonia, through a process which can be both incremental (step by step procedure) and ambitious in order to envisage – within to or three years – the implementation of an integrated UDF;

- on the other hand, the existence of a series of operational difficulties and cultural obstacles against the use of this type of instruments in the current structural funds framework. This could lead the Region to consider the implementation of JESSICA in a context which is not determined by the structural funds.

The report concludes with a schematic and chronological representation of these two scenarios, which capitalises on the various elements analysed and proposes a twofold strategy to be empowered by the Walloon actors who might be interested by the implementation of JESSICA.

Résumé exécutif

Ce rapport propose une étude des conditions dans lesquelles l'instrument financier JESSICA pourrait être mis en œuvre en Wallonie. JESSICA est un instrument d'ingénierie financière alternatif aux subsides actuellement versés par le FEDER sous forme de bourses aux opérateurs, pour soutenir le développement urbain. Instrument permettant de générer un effet de levier et un recyclage des fonds au-delà de 2013 ou 2015. Dans le cadre du mécanisme proposé par JESSICA, une partie de la dotation des Fonds Structurels est affectée à un fonds spécial qui sert de support pour lever d'autres financements : le Fonds de Développement Urbain (FDU).

L'évaluation générale de planification urbaine et environnementale en Belgique et en Wallonie révèle à la fois une atomisation des instruments sur plusieurs niveaux de pouvoir (fédéral, régional et local) et une absence de vision intégrée de la régénération urbaine en Wallonie à l'exception notable de deux instruments : la rénovation urbaine et la revitalisation urbaine. Ces instruments ne sont pas spécifiquement ciblés sur les villes les plus importantes et ne contribuent pas à une politique de la ville pensée comme telle au plan régional. Cependant, comme dans d'autres pays européens, une série d'initiatives se mettent en place à l'échelle urbaine et intègrent progressivement des critères de développement durable. Il y a donc un terrain potentiellement fertile à l'accueil d'une politique urbaine intégrée qu'un instrument comme JESSICA peut soutenir.

Le rapport s'intéresse ensuite aux projets financés par le FEDER. Ceux-ci ont concerné, depuis 1994, quelques grandes agglomérations urbaines wallonnes, singulièrement en Province de Hainaut et dans le bassin liégeois. La programmation 2007-2013 des programmes « convergence » (province de Hainaut) et « Compétitivité et emploi » (reste de la Wallonie, mais ciblage sur le bassin liégeois) poursuivent cette tendance. L'axe 3 de chacun de ces programmes est spécifiquement dédié au développement territorial équilibré et durable. Au cœur de la stratégie des deux programmes opérationnels, est exprimée la volonté de redynamiser les pôles urbains. Sur les 650 projets candidats à l'axe 3, 214 ont été sélectionnés par la Région wallonne. Leur choix a été guidé par les principes d'agglomération et de concentration des moyens dans le cadre de portefeuilles de projets structurants, afin d'éviter le saupoudrage.

Parmi ces 214 projets, deux ont fait l'objet d'une sélection pour étudier la faisabilité de Jessica, de même qu'un troisième projet, extérieur à l'intervention du FEDER, mais qui présentait également un potentiel intéressant au regard des critères pertinents pour un instrument d'ingénierie financière, notamment une capacité à produire des recettes. L'analyse des projets a révélé que ce critère particulier ne concernait – pour des raisons stratégiques propres à la Wallonie mais que l'on retrouve dans d'autres contextes régionaux – qu'un nombre très limité des projets financés à travers l'axe 3. L'analyse montre également que, si l'entièreté des fonds a été attribuée auxdits projets, l'état des dépenses y relatives était très modeste (situation au 16 juillet 2009).

Le passage en revue que nous avons effectué des opérateurs wallons susceptibles de s'investir dans un FDU a révélé une relative modestie, notamment en termes de gestion opérationnelle. Cette modestie s'explique par le petit nombre d'opérateurs disposant d'une réelle capacité de trésorerie à mobiliser dans JESSICA. Il y a par contre davantage de potentialités au niveau régional et local pour contribuer à des projets qui pourraient faire l'objet d'un soutien par un ou plusieurs FDU et un intérêt de principe de quelques acteurs-clés, dont les communes et certains opérateurs thématiques, à bénéficier d'un tel instrument. Il y a donc, potentiellement, une offre et une demande à organiser, mais dont les conditions de faisabilité doivent être démontrées plus avant sur base d'exemples concrets, tels que ceux qui sont développés dans le rapport.

JESSICA se présente également comme un instrument intéressant pour la mise en œuvre de partenariats publics-privés dans les territoires. Notre étude met en évidence caractère exploratoire des réflexions en matière de recours à ces instruments en Wallonie mais aussi différentes pistes d'approfondissement dans lesquelles la Région s'investit.

L'étude des projets-pilotes s'est concentrée sur trois cas en Région Wallonne, qui avaient chacun une pertinence différente par rapport au mécanisme JESSICA:

- le projet « Pré-Madame » à Herstal, qui concerne la rénovation d'une friche industrielle en un ensemble de logements et de services par un entrepreneur privé ;
- le portefeuille de projets « Ecopôle » à Charleroi, qui traite de la viabilisation de terrains industriels pour y établir un pôle d'activités économiques, et qui constitue ainsi un projet illustratif de beaucoup d'autres en Wallonie ;
- le projet « Centre de congrès » à Mons, qui entre dans le cadre de la rénovation urbaine à travers un ensemble d'interventions publiques dont la construction d'un centre de congrès est financièrement l'une des plus importantes.

Ces cas ont été étudiés selon la même méthodologie, à savoir :

- l'identification des différents acteurs importants ;
- l'identification de l'ensemble des coûts et revenus ;
- le phasage dans le temps de ces coûts/revenus qui tient compte de la réalité du déroulement des projets et ainsi de l'impact du financement ;
- l'élaboration de types de financements (avec ou sans l'intervention d'un FDU, selon un prêt à taux préférentiels ou par prise de participation) ; et
- la recherche de pistes d'optimisation.

L'analyse de ces trois cas a permis de démontrer globalement trois fonctions importantes qu'un fonds de développement urbain (FDU) pourrait remplir en Wallonie:

- le FDU comme fournisseur de crédits : JESSICA permettrait de fournir des crédits à des projets complexes qui sont déjà bien préparés par d'autres acteurs et qui remplissent les critères d'investissement (critères financiers mais aussi par rapport au contenu) retenus par le FDU ;
- le FDU comme mécanisme de gestion pour des grands projets montés en partenariat public-privé : JESSICA faciliterait la gestion de montages et de flux financiers de projets complexes, dans lesquels un partenariat avec des acteurs privés spécialisés est indispensable pour arriver à des projets performants ;
- le FDU comme vecteur d'efficacité dans des grands projets subsidiés : JESSICA offrirait un cadre pour des pistes d'optimisation financière pour des projets historiquement fort subsidiés

Plus spécifiquement, projet par projet :

- Le projet « Pré-Madame » a permis de mettre en évidence les synergies et complémentarités que le secteur public peut développer avec le secteur privé, en favorisant la réalisation de projets mixtes (activités économiques avec du logement), là où ce n'était pas envisageable auparavant (étant donné que le FEDER ne peut pas être utilisé pour financer du logement). Ce projet est par ailleurs rendu réalisable grâce à l'intervention financière du FDU, qui permet au secteur privé de financer le projet à plus faible coût et de réaliser ainsi des marges raisonnables, ce qui n'était pas le cas sans le FDU ;
- le projet de « Centre de congrès » à Mons a mis en évidence que le mécanisme JESSICA pouvait être plus performant qu'une subvention classique dans la mesure où il permet de réduire les risques de construction, commerciaux et urbanistiques de projets de grande envergure (p.ex. stades de football, centres de congrès, salles de concert,...) à travers une meilleure répartition des tâches et des risques entre partenaires publics et privés, et une utilisation plus efficace des moyens par un mix de financements. Contrairement au scénario de base où le financement se ferait exclusivement par subsides et ce à hauteur de 22 millions d'euros, le scénario optimisé consisterait ainsi à financer le projet en combinant

subsidés (12 millions), emprunt (8 millions) et fonds propres (2 millions). Il apparaîtrait ainsi une différence positive de 10 millions que la Ville de Mons pourrait réinvestir par ailleurs ;

- le portefeuille de projets « Ecopole » a démontré que le cadre JESSICA permettait de rechercher des solutions d'optimisation des projets, à travers notamment la recherche de partenariats avec les propriétaires présents dans le périmètre, un phasage plus efficace des travaux (plus en relation avec la distribution des terrains) et l'application de prix de revente diversifiés et en rapport avec le marché. L'optimisation des scénarios permettrait ainsi de compléter le projet par des investissements complémentaires plus rentables, et où la part de subsidés ne serait pas de 8,7 millions comme dans le scénario de base, mais bien 2,9 de millions (le reste étant financé à hauteur de 14 millions par emprunt et un peu moins de 6 millions euro par fonds propres).

A partir de ces trois études de cas, trois scénarios ont été développés pour la mise en œuvre de Jessica en Wallonie. Ces trois scénarios extrapolent la situation des études de cas pour proposer des schémas-types de FDU. En fonction de leur ambition et du type de projet concerné (éco-quartier, projet majeur à structure complexe, instrument intégré), les scénarios mettent en évidence l'intérêt mais aussi les contraintes que présente une stratégie de mise en place d'un instrument de financement « renouvelable » de type JESSICA. Selon les cas et les montants investis, la région peut, à travers ces mécanismes et une gouvernance spécifique, générer des effets de levier financiers plus ou moins ambitieux mais qui représentent des rapports intéressants. Ce qu'il faut avant tout retenir de ces scénarios, c'est qu'ils impliquent des changements majeurs dans la manière dont les fonds structurels sont utilisés en Wallonie et qu'ils illustrent des conditions de faisabilité, notamment :

- la mise à disposition de budgets FEDER – actuellement attribués et donc non disponibles – pour alimenter un FDU ;
- à défaut, la mobilisation de moyens non-européens pour alimenter un FDU, à partir de ressources existantes ;
- la mise en place de mécanismes incitatifs différenciés par rapport au fonctionnement « traditionnel des Fonds structurels » en Wallonie dans le contexte urbain ;
- une révision transversale des instruments de soutien à l'investissement urbain en Wallonie
- l'attitude que les institutions financières internationales adopteront à l'égard de la Wallonie et de la structure de FDU qu'elle proposera.

La condition de réussite essentielle semble être une nécessité de sortir d'une logique où le subventionnement public domine afin d'amener les porteurs à penser le montage de leur projet dans la logique induite par le FDU. Les scénarios proposés sont illustratifs, à cet égard, des marges qu'il est possible de conserver dans une logique et dans l'autre. En période de crise – et potentiellement de crise assez longue – il peut également s'agir, pour le Gouvernement wallon, d'utiliser ses moyens budgétaires avec davantage d'efficacité et en s'appuyant sur l'expertise d'institutions financières internationales.

Deux conclusions majeures sont donc tirées du rapport :

- d'une part, un intérêt stratégique à évoluer vers la mise en place de Jessica en Wallonie, selon un processus qui peut être à la fois incrémental (procédure pas à pas) et ambitieux et envisager la mise en place d'un FDU intégré à un horizon de deux ou trois ans ;
- d'autre part, l'existence d'une série de difficultés opérationnelles et d'obstacles culturels à l'évolution vers ce type d'instrument dans le cadre de fonctionnement actuel des fonds structurels et qui peut amener la Région à considérer la mise en place de JESSICA dans un contexte qui n'est pas conditionné par les fonds structurels.

Ces deux scénarios font l'objet d'une approche schématique et chronologique qui conclut le rapport en valorisant les différents éléments soumis à l'analyse au sein d'une double stratégie proposée aux acteurs wallons potentiellement intéressés par la mise en œuvre de JESSICA.

List of abbreviations

- AFOM (SWOT): Strengths – Weaknesses – Opportunities - Threats
- BCE/CEB: Council of Europe Development Bank
- BEI / EIB : European Investment Bank
- CCW: Confédération de la Construction Wallonne [Walloon Building Federation]
- CPAS: Centre Public d'Aide Sociale [Public Centre for Social Aid]
- CRSN: Cadre de Référence Stratégique National [National Strategic Reference Framework]
- CRAC Centre Régional d'Aide aux communes [Regional Centre for Aid to the Municipalities]
- CWATUP(E) Code wallon de l'aménagement du territoire; de l'urbanisme, du patrimoine (et de l'environnement) [Walloon Code for Regional Development, Urban Planning, Heritage (and the Environment)]
- DBFM Design, build, finance and manage
- Dec.: Decision
- DGO Direction Générale Opérationnelle [General Operational Directorate]
- FDU/UDF: Urban Development Fund
- ERDF European Regional Development Fund
- FN: Fabrique Nationale
- OR: own resources
- ESF European Social Fund
- WG Walloon Government
- IFI International Financial Institution
- PB public body
- PCA Plan Communal d'Aménagement [Municipal Development Plan]
- PFGV Politique fédérale des grandes villes [Federal policy for the big cities]
- OP: Operational Programme
- PPP: Public-Private Partnership
- RCA: Régie communale autonome [Autonomous Municipal Association]
- RCU: règlement communal d'urbanisme [municipal planning regulations]
- SAR: Site à réaménager [site for redevelopment]
- SDER: Schéma de Développement de l'Espace Régional [Regional Development Scheme]
- SEM: Société d'économie mixte [semi-public company]
- SNCB: Société Nationale des Chemins de fer Belges [Belgian National Railways Company]
- SOWAFINAL: Société wallonne de financement alternatif [Walloon Alternative Finance Company]
- SPAQUe: Société publique d'aide à la qualité de l'environnement [Public Association for Enhancing the Quality of the Environment]

- SRIW: Société Régionale d'Investissement de Wallonie [Wallonia Regional Investment Company]
- SRLH: Société régionale du logement de Herstal [Herstal Regional Housing Society]
- SWL: Société wallonne du logement [Walloon Housing Society]
- TGV: Train à grande vitesse [high-speed train]
- EU: European Union
- RUE: Rational Use of Energy
- RUEB: Rational Use of Energy in Building
- UVCW: Union des Villes et des Communes de Wallonie [Union of Cities and Municipalities in Wallonia]
- ZIP: Zone d'intervention prioritaire [Priority Intervention Zone]

Introduction

JESSICA - is an initiative developed by the European Commission with the European Investment Bank (EIB) in collaboration with the Council of Europe Development Bank (CEB).

The European Investment Bank (EIB) engaged the Destrée Institute, in partnership with *IDEA Consult*, to perform a feasibility study on the establishment of the JESSICA instrument in collaboration with the CEB – and more specifically the establishment of an Urban Development Fund (UDF) system incorporated in project portfolios in the form of loans, guarantees and equity holdings - in Wallonia, both looking back at the specific urban problems in Wallonia and at the same time looking forward, from the technical and financial point of view, at the relevance and effectiveness expected from this instrument in the period up to 2013.

This document is the final report on the study.

According to the terms of reference of the study, this report must meet the following requirements:

1. It must establish a methodology, analyse the financial feasibility of the use of JESSICA by the Walloon Region and, within the context of funding operations with structural funds, examine the potential of UDFs to speed up the investments needed to achieve urban policy objectives in terms of the existing public-private partnership instruments in Wallonia.
2. It must identify the key stakeholders in the market for the public and private urban renewal sectors, as well as the existing investment structures and their potential role and contribution in the success of JESSICA in Wallonia.
3. It must identify and evaluate the difficulties and the gaps between supply and demand with regard to the financial engineering tools and the products for urban regeneration that could be replenished by contributions of structural funds using JESSICA.
4. It must propose suitable structures for the implementation of JESSICA in Wallonia, taking into account all the legal constraints (e.g. state aid, public procurement contracts...), as well as the need to minimize the additional management and implementation costs. It would be appropriate to select only a limited number of pilot projects, so as to make a detailed concrete analysis of how the JESSICA mechanisms could improve their financial and economic performance.
5. It must put forward an action programme for setting up JESSICA in Wallonia.

Structure of the report

We have opted for a report structure that corresponds to the tasks of overall evaluation of the possibilities for setting up JESSICA in the Walloon Region, as defined by the terms of reference on page 12 et seq., numbered 1 to 15.

Prior to this structuring of the report task by task, we briefly recall the objective of JESSICA and list the stakeholders met during this study.

The report ends by proposing a conclusion in the form of a chapter dealing with a suggested strategy for the implementation of Jessica in Wallonia and its overall feasibility conditions.

Objective of JESSICA

The instrument JESSICA has been offered to the Member States of the European Union (EU) to support investment projects relating to sustainable urban development. It backs up the instruments deployed within the framework of the cohesion policy and financed in Wallonia by the ERDF with the aim of:

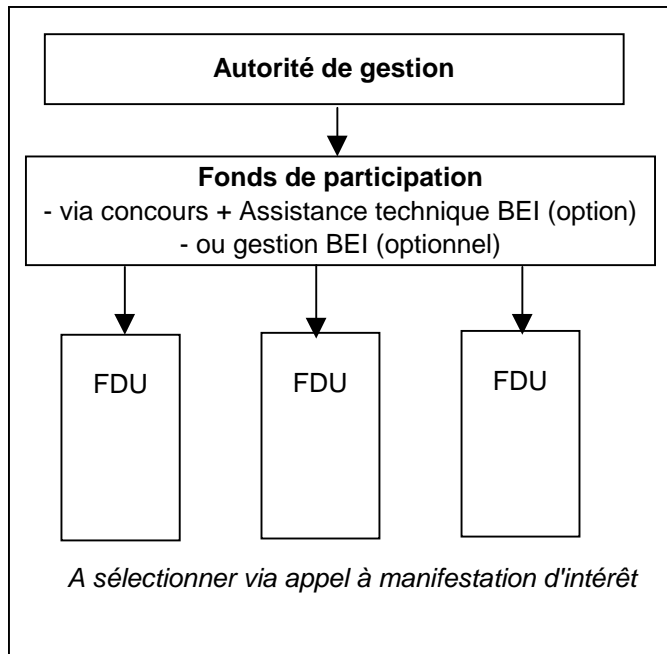
- using part of the Structural Funds for recyclable/recoverable financial devices;
- maximizing leverage effects to attract investors or equity capital;
- supporting projects developed on a PPP basis;
- decentralizing management powers.

In other words, therefore, the aim is to provide a financial engineering device that is an alternative to the subsidies currently provided in the form of grants to support urban development. With this instrument it is possible to achieve a leverage effect and recycling of funds beyond 2013 or 2015..

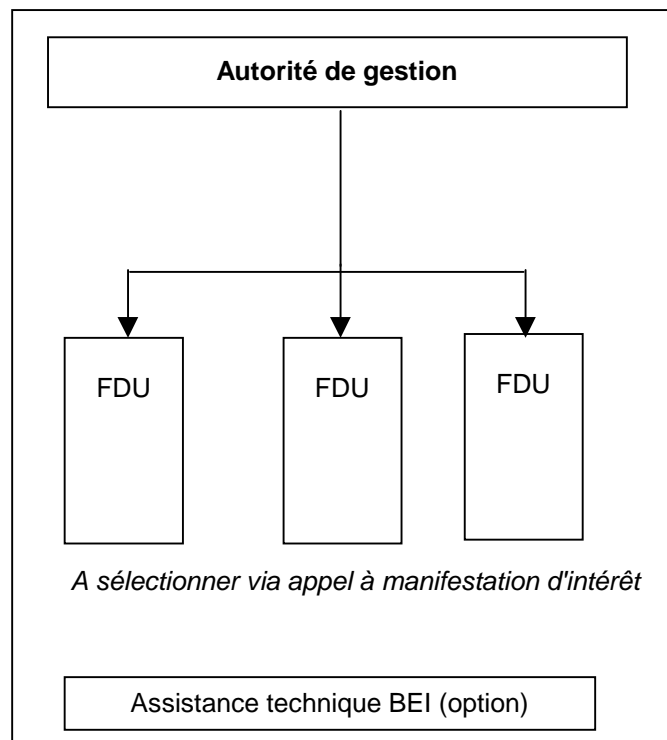
Under the mechanism provided by JESSICA, part of the allocation of Structural Funds is used for a special fund that helps to raise other finance. The idea is to "play" the leverage effect. Some documents in which the JESSICA initiative is presented by the EIB refer to a spread ranging from 5 to 15%.

A number of structures can be envisaged for the implementation of JESSICA, but the precise details will depend on the specific characteristics of Walloon institutions. Two major models are possible :

1. The **creation of a holding fund** to hold ERDF finance and regional co-financing intended to replenish Urban Development Funds. In this option the EIB can initially assume responsibility for managing the holding fund, then later transfer this management to a regional fund.



2. Direct replenishment by the Managing Authority of an Urban Development Fund. This UDF can possibly be set up as an independent legal entity managed by agreements between investors or shareholders. Alternatively it can exist as a separate fund within an existing financial institution. In this case separate management must be ensured and specific implementation rules established.



The selection of the Funds (Holding Funds if it is not the EIB that takes on this role, and Urban Development Fund) should in principle be based on a call for expression of interest, in accordance with the Community rules concerning public service contracts. The procedures and exceptions (e.g. if it is not possible to provide services) will have to be examined in relation to the specific characteristics of the region.

Intervention by the private sector can be envisaged in both options: via the Holding fund, the Urban Development Funds, or directly at the project financing level. In practice the public-private partnership is usually set up at the UDF or project level. The Funds can also be replenished via other sources of finance.

Recourse to loans from international financial institutions such as the EIB or CEB can also be envisaged, in accordance with the EIB's classic intervention methods (at the level of the funds or directly at project level).

On paper there is also great flexibility in the legal form of the Urban Development Funds, their objectives (they can be targeted geographically or thematically) and the financial tools offered (capital support measures, loans, subordinated loans, guarantees).

The fund may relate to projects of a territorial nature (e.g. centred on a city) or sectoral nature. To be eligible for this financing mechanism the European Commission Regulation requires projects to form part of an integrated programme for sustainable urban development¹. Projects that are technically and financially viable will be financed via the UDFs.

¹ Commission Regulation (EC) No. 1828/2006 of 8 December 2006, Articles 43 to 46.

1. General assessment of urban and environmental planning in Belgium and in Wallonia

It is appropriate here to make some brief comments about the way in which urban and environmental planning takes place in Wallonia and the procedures in place for the preparation and adoption of integrated plans for sustainable development, with an assessment in particular of the ability of regional and local authorities to develop integrated approaches in the urban sector. The terms of reference also pose a question : "what possibilities should be offered for the improvement and development of real-estate performance in the towns and cities?"

Strictly speaking there is no policy for cities in Wallonia, such as some states or regions have been able to develop elsewhere in Europe. The main instruments developed by the Region in the "urban context" are firstly the mechanisms for urban renewal and regeneration which we present in greater detail in Chapter 3; and secondly planning procedures (mobility, development of the natural environment) or regulatory procedures and investment programmes centred on highly specific needs (housing, sewerage). The whole entity is not integrated in a structural framework which would require Walloon cities to adopt an integrated or sustainable plan. Unlike "rural affairs", there was no minister for cities in Wallonia until June 2009. There is a Wallonia Rural Foundation which does not have an urban counterpart.

To ensure better collaboration in the urban sector a City-Wallonia platform made up of regional services has been set up on the initiative of, and co-ordinated by, the General Operational Directorate for Regional Development, Housing, Heritage and Energy in the Wallonia Public Service; it will soon be expanded to include the representatives of the cities if the initiative is continued.

There is no lack of incentives for putting urban planning measures in place, however. We describe the main components of these below.

1.1. Federal Policy for the Big Cities

One of them was initiated at federal level in 2000 under the name of Federal Policy for the Big Cities. This aims to improve living and housing conditions in cities and municipalities with disadvantaged areas. For this purpose the federal authority concludes city contracts and housing contracts which might to some extent, but not completely, fall within the definition of what is termed an integrated plan for sustainable development. These "contracts" only bind the municipal authorities concerned and the federal government. Since 2005 they have been effective for more than one year (covering a period of three years). The total budget allocated to the city contracts for the 2005-2007 programme was set at 128,652,000 €, distributed among 17 cities, i.e. an average of 7,500,000€ per city. In 2008 the city contracts were extended by one year, by an amendment. To this must be added the amount of the housing contracts, with an additional volume of 69,675,000 €. Since 2009 the city contracts and the housing contracts have been merged in "sustainable city" contracts.

Recently (April 2009) a new series of "sustainable city contracts" was adopted for 2009. 67 million euros will be allocated to 121 projects selected in the same 17 cities. Operation for periods longer than a year no longer seems to be on the agenda.

The "Policy for the Big Cities" programme does not require any matching financial contribution from the local authorities, in view of their very difficult financial position. Projects

can therefore be 100% funded by the programme. It is intended to support projects of an innovative nature, which would otherwise not have been able to come to fruition.

As far as Wallonia is concerned, these contracts have since 2005 involved five cities with populations of more than 60,000 which meet the eligibility criteria (Mons, Charleroi, La Louvière, Seraing and Liège). They have allowed the cities and municipalities to finance various projects, such as district housing, improvement of streets and squares, social integration measures, etc. With regard to the housing contracts, these are used to buy or renovate housing (for sale or rent) that is intended for people on low or moderate income.

In December 2007 the country's Court of Accounts evaluated the Policy for the Big Cities (PFGV). According to this evaluation of the federal instrument *"the resources deployed by the PFGV are not systematically being put to good effect. Many cities and municipalities dip into this federal budget allocation in order to finance a whole range of projects which serve the community but are part of the normal working of a municipality. The Walloon cities are no exception. Federal money is thus being used for renovation of buildings forming part of the municipal heritage, for the wages of staff employed in the classic municipal services, for the road maintenance and cleaning department, etc.... Some Walloon municipalities make no secret of this, pleading their difficult financial situation. This reduces the Walloon cities' financial ability to put through their own urban projects. The Court of Accounts notes, moreover, that only 30% of resources is allocated to new projects in Wallonia, as against 50% in Flanders. This north-south differential is undoubtedly explained by the scale of federal resources in the north of the country and the fact that Flanders has funding of its own (Stedenfonds²)"³.*

What cannot be denied, however, is that this tool has helped to give structure to a genuine urban development strategy: it has made cities reconsider their urban development from a more integrated point of view, with due regard to principles such as the reduction of the environmental footprint or the development of specific responses in sensitive areas.

It should be stressed that following the elections in June 2009, as a result of the budgetary difficulties connected with the financial crisis, some federal representatives publicly declared the desire of the federal government to withdraw from the implementation of this instrument, insofar as the areas concerned are essentially a matter for regional government.

² This fund allows the Flemish policy for the cities to allocate federal resources no longer just to the administrative management of projects and the hiring of municipal staff but also to the projects themselves

³ J. TELLER, T. CHEVEAU. *Notes de recherche*, - Politique de la ville – analyse du rapport de la cour des comptes sur la politique fédérale des grandes villes, CPDT, No. 6, July 2008, p. 4.

1.2. The regional instruments

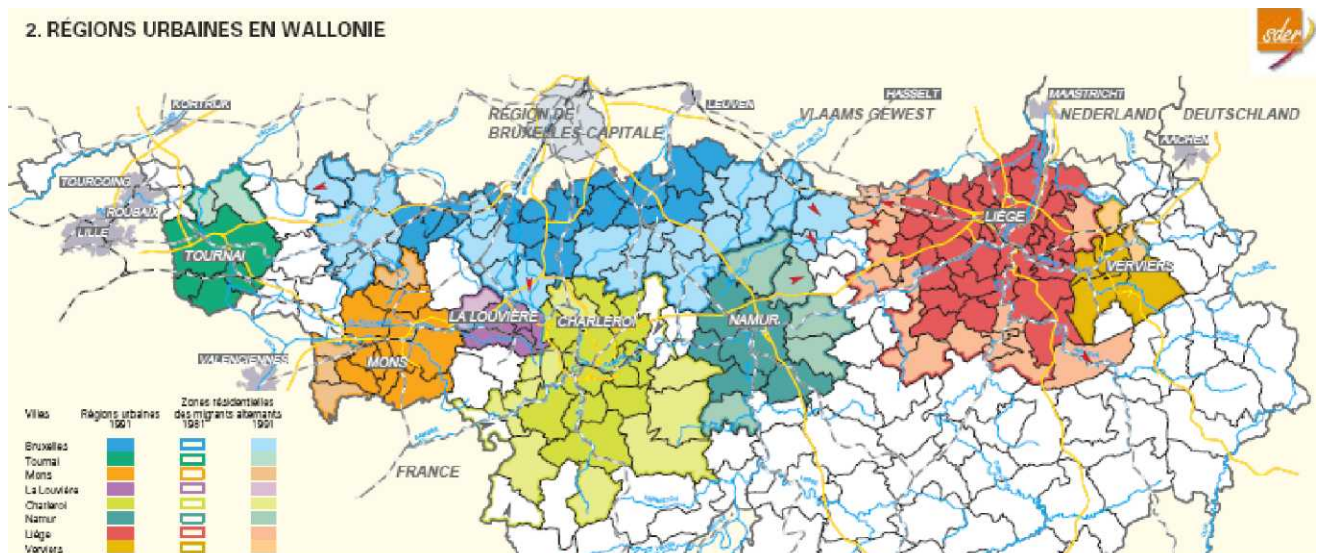
The other tool, which is more specifically Walloon, and to our knowledge the only one to put forward an integrated view of urban problems in Wallonia, is the **Schéma de Développement de l'Espace Régional** [Regional Development Scheme]. As a tool for regional planning in Wallonia, the SDER is an overarching and adaptable document which is intended to serve as a guide for revisions of district plans and as a reference for the development of the area as a whole.

Without going into the details of the document, it will be recalled that its objective is to integrate Wallonia in the supraregional context and to organize it in areas of collaboration going beyond municipal level, with the aim of re-establishing interdependence between cities and their surrounding areas. Its spatial structure comprises in particular the following main axes:

- the four areas of transregional cooperation (Lille, Brussels, Luxembourg and Maastricht-Aachen-Liege-Hasselt)
- the four eurocorridors that cross the region;
- the communication axes and nodes.

The term "urban centre" has been chosen to designate the cities in the spatial structure project because it expresses the presence and complementary nature of functions that can be used as a basis for structuring and developing the region. The SDER identifies centres of variable size which are asked to play very different roles: Namur is the regional capital, Liège and Charleroi are major centres, Mons a regional centre. The centres may be centres providing support for rural areas, centres providing cross-border support, or centres providing support for tourism; they may combine several of these functions.

Map 1 – urban regions in Wallonia according to the SDER



Source : Schéma de Développement de l'Espace Régional, <http://sder.wallonie.be>

As a document with a genuine integrating role in which what is wanted at the level of the cities, i.e. an integrated plan for sustainable spatial development, is proposed at the level of the entire Region, the SDER has one enormous handicap: its non-statutory nature.

The counterpart of the SDER at local level is the **Municipal Structure Scheme**. This scheme, which does not apply to cities, is a "*policy, management and planning document for the development of the whole of the municipal area*" (Art. 16 to 18 of CWATUP⁴). The purpose of the Municipal Structure Scheme is to lay down a regional planning policy within the framework of a municipal development project. This project must comply with the provisions of the district plan, i.e. the map which shows all the plots of land in Wallonia, with captions depending on their intended planning use, and which serves as a regulatory instrument to be complied with as a first priority at local level. It must also take the municipal resources into account.

The Municipal Structure Scheme is thus also a guidance document: it does not have any legal force. The local authority must comply with it, however, unless special circumstances warrant otherwise. The reasons for any divergence of development projects from the provisions of the Municipal Structure Scheme must be properly explained. The broad policies given by the scheme are translated into plans relating to part of the municipal area ("*plans communaux d'aménagement*" [municipal development plans] or P.C.A.) and regulations relating to all or part of this area ("*règlements communaux d'urbanisme*" [municipal planning regulations] or R.C.U.).

The Walloon cities, Tournai for example, are currently making use of modified structure schemes to plan their urban redevelopment strategy. These schemes support the documentation relating to urban renewal in various contexts (ERDF, subsidies for renewal or regeneration, PFGV).

With regard to environmental planning, we will not dwell too long on this subject insofar as the links with the urban reality in the existing initiatives are maintained, contrary to what may be proposed by economic or social planning documents (cf. next chapter and links between the operational programmes and the "Marshall Plan"). At the end of the legislature, the Minister responsible for the environment and sustainable development ordered the formulation of a Walloon strategy for sustainable development, in which the urban dimension was scarcely represented. In any case the document has not yet been made official.

An initial answer (almost a precondition) to the question "what possibilities should be offered for the improvement and development of real-estate performance in the cities?" might therefore be to **impose a regional framework giving structure to city projects in Wallonia**, by defining the contours of what a city project can be. Following on from this, the implications of this framework for regulatory and strategic instruments should be given a specific focus.

A second answer just as naturally relates to the **creation of financing tools for urban policy**, once again by means of a precise definition of this concept and its variant at Walloon level. These tools exist in the Brussels Capital Region and in Flanders, but not in Wallonia. For this reason the ideas raised via JESSICA on the feasibility of setting up urban development funds are entirely pertinent.

⁴ Code wallon pour l'aménagement du territoire, l'urbanisme et le patrimoine [[Walloon Code for Regional Development, Urban Planning and Heritage]

2. Analysis of the Operational Programmes 2007-2013 with regard to urban policies

The intention here is to analyse the context of ERDF aid, the finance granted and the projects selected which might provide returns on investment. The intention is also to examine whether funds are available for allocation to a JESSICA type fund.

2.1. Summary of the contents and main objectives of the Operational Programmes (OPs)

Belgium's federal structure gives a great deal of autonomy to the regions (Brussels-Capital Region, Flanders and Wallonia) with regard to economic development, employment, education and innovation policies, and consequently with regard to the implementation of strategic policies adapted to their specific socio-economic characteristics. At Belgian national level, cohesion between the strategic choices of the various regions is ensured by bringing them into line with the national reform programme and the Cadre de Référence Stratégique National de l'Etat fédéral [National Strategic Reference Framework of the Federal State] (CRSN Belgique).

The 2007-2013 programming of the Structural Funds is articulated around the "convergence" objective in the Province of Hainaut, with a budget of 1.5 billion euros, while the rest of the Walloon Region is covered by the "regional competitiveness and employment" objective, with a budget of 1.3 billion euros (see map of the two zones on the next page).

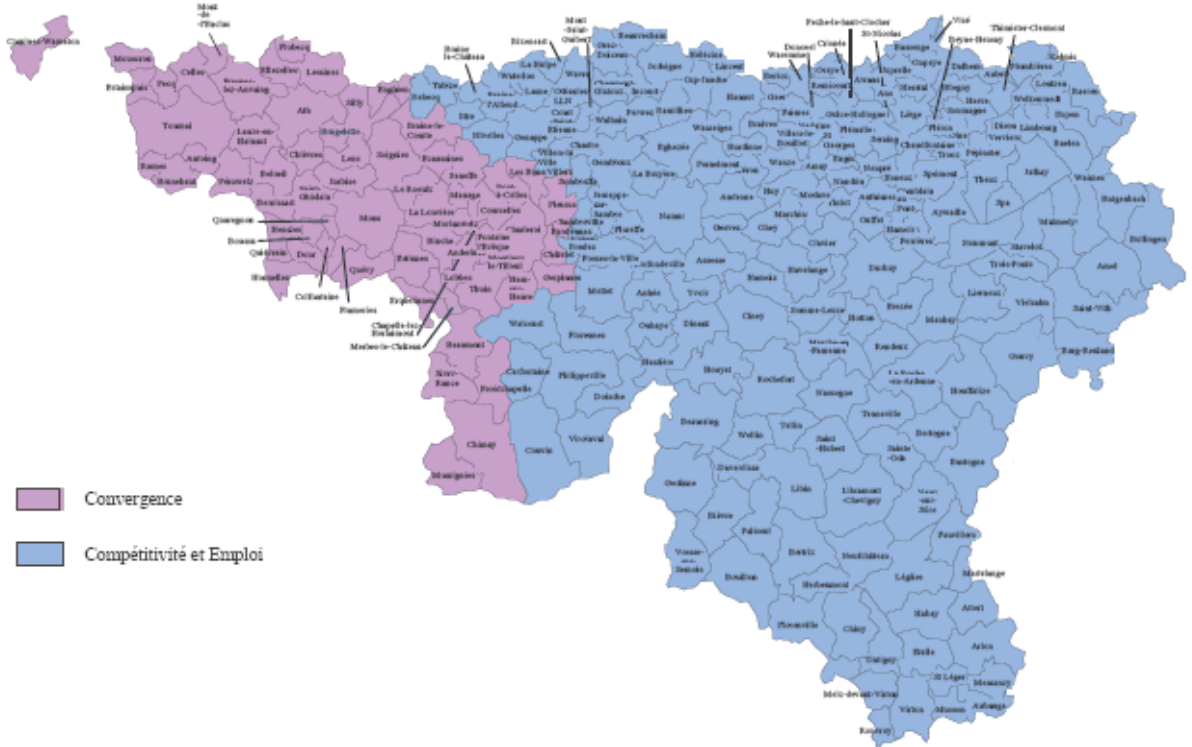
The following situation with regard to regional planning in the widest sense can be noted in respect of the above-mentioned operational programmes:

"Analysis of the strengths, weaknesses, threats and opportunities of the province reveals the principal elements of the socio-economic diagnosis, some of which are relatively obvious, such as the lack of economic dynamism and the problem of employment and education, while others are less evident, because they are connected to the environment. One of these is the de facto parochialism, which is reflected in the lack of any overall territorial development strategy. Territorial planning and the economic development which accompanies it depend on the areas of geographical and sectoral competence of the various categories of operators. The development of the urban centres depends on their own strategy and often does not reflect the links with their hinterland and is sometimes even in secret competition with the neighbouring centre. This results in less than optimal management of territorial diversity. This situation is not unrelated to the fragmented state of the social capital. The close proximity of the big urban centres to each other, however, is a major advantage for the province, which could stimulate the emergence of an integrated metropolitan area at European level by coordination of the policies pursued by the three separate entities, Charleroi, Mons-Borinage and Centre, and development of a common long-term vision."⁵

⁵ Walloon Government: Programme opérationnel "Convergence" HAINAUT, Intervention FEDER 2007-2013 [HAINAUT "Convergence" Operational Programme, ERDF aid 2007-2013], p. 65.

Map 2 – the Convergence/Competitiveness & Employment zones in Wallonia

Zones d'intervention des Fonds structurels européens - Période 2007-2013



Source : www.europe.wallonie.be

In the "convergence" OP it is also noted that *"the metropolitan regions have always played an important role in the economic development [of the Hainaut area]. After a period of transition the cities are now beginning to play a more powerful role in economic development. They are the place where the economies of agglomeration are greatest. For this reason they have a large number of advantages that strengthen their importance in the context of globalization. In universities, research centres and enterprises with high value added they benefit from a concentration of intellectual resources that facilitates high levels of innovation. They also have at their disposal cultural resources which contribute to economic growth and job creation. By virtue of this concentration they are excellent locations upon which an economic development strategy can be based. In Europe there is no prosperous region without a prosperous city. While some cities have succeeded in completely renewing their urban framework to provide a favourable environment for housing, offices and commerce, others are having difficulty in achieving regeneration and meeting the challenge of sustainable urban development because of the scale of the problems and the financial resources needed to solve them."*

The diagnosis of the problems is more complex but just as clear with regard to the "competitiveness and employment" operational programme. Centred primarily on the industrial area of Liège, it stresses that although *"in terms of regional attractiveness the infrastructural facilities are good and the area has advantages with regard to its cultural heritage, natural assets and tourism, the reduction in the attractiveness of Liège as an urban focal point is a major obstacle to the economic redeployment of the area. The other cities in the area do not appear to have great potential as focal points. The attractiveness of the urban focal points must therefore be restored, so as to give them back their role as driving forces for development. It is also advisable to ensure that the best possible use is made of the infrastructural advantages of the area, and to enhance them wherever this is found necessary"*⁶

The Walloon Government has therefore adopted three main axes of development within these programmes. These axes have been chosen in accordance with the strategy of the "Marshall Plan"⁷, which presents priority measures for the Walloon recovery and overall strategic plans. **These axes are identical for the "convergence" and "regional competitiveness and employment" parts of the programme:**

- axis 1: Creation of enterprises and jobs;
- axis 2: Development of human capital, knowledge, know-how and research;
- axis 3: Balanced and sustainable territorial development.

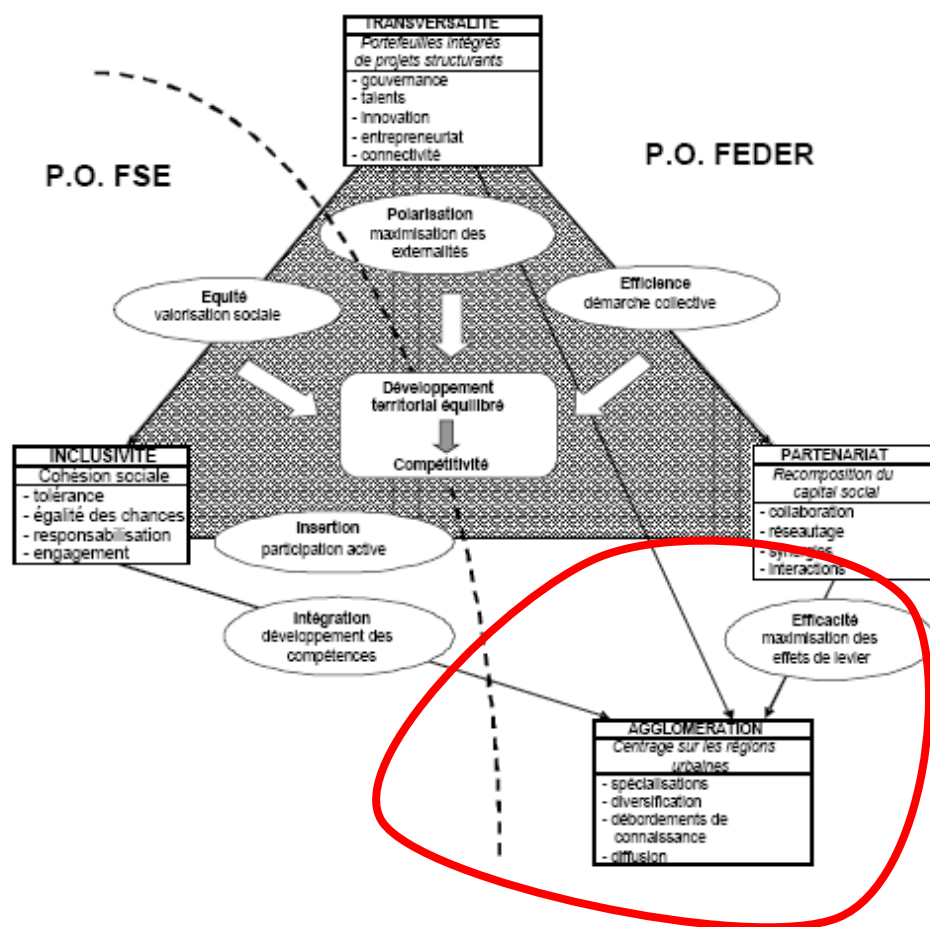
It is within the context of this third axis that the relevance of JESSICA must be analysed, since it brings together measures and projects with an urban focus. At the heart of the strategy of the two operational programmes there is an expression of the desire to *revitalize the urban focal points, which are also focal points for economic activity by virtue of the economies of agglomeration that they produce, in order to make them attractive again and thus restore their ability to spread growth into their hinterland, without forgetting that they are the central locations in which the focal points for competitiveness will be required to develop.*

⁶ Walloon Government: Programme opérationnel "Convergence" HAINAUT, Intervention FEDER 2007-2013 [HAINAUT "Convergence" Operational Programme, ERDF aid 2007-2013], p. 76.

⁷ Marshall Plan or "priority measures for the future of Wallonia", a document adopted on 30 August 2005 by the governments of the Walloon Region and the French Community.

It will also be recalled that the concept of agglomeration occupies an important position among the overarching criteria which the programmes intend to apply in planning. It is defined as: "a concentration of resources upon urban areas in order to help achieve economies of agglomeration, especially in the Meuse-Vesdre basin [since what is involved here is the "competitiveness" OP]. It is expected to set in motion a process of polarization of growth as a result of the improvement in the factors that make the area attractive. A similar approach will also have to be facilitated in the rural areas in order to make measures more effective, notably within the framework of their interaction with the local urban centres."

The following diagram, taken from the "competitiveness" OP, confirms the importance of this criterion in the overall strategy.



2.2. Selection of projects and financial situation reports for axis 3

The task of selecting the projects was assigned to an independent task force made up of people from the universities and representatives of the business world, which had the job of identifying the projects that met the objectives laid down by Europe and by the Walloon Region, consistent with a partnership approach. Another principle observed in the use of the resources allocated was the targeting of measures which generated substantial increases in value added, and for which the leverage effect of the European funds was greatest.

Priority was also given to projects in portfolios which could take one of the following forms:

- a set of projects covering a particular geographical area;
- a coordinated set of projects covering a particular thematic area;
- a process aimed at selecting a specific problem area;
- a set of projects filed jointly by more than one operator, taking their complementary nature into account.

Axis 3, supported solely by the ERDF, with a total budget amounting to 743 million euros for the whole of the two operational programmes, is the one which is most consistent with the object of JESSICA. It brings together the essential features of specific urban policy measures. This axis, which involves three measures, is intended to increase the attractiveness of the region, in support of the development of economic activities. This mainly involves the following areas:

- the remediation and redevelopment of industrial and urban wasteland,
- the restoration of competitive infrastructures serving the needs of businesses,
- urban revitalization, including the development of heritage assets, tourism and cultural aspects.

The environmental dynamic and the efforts to combat climate change were integrated right across the portfolios of projects chosen. They appear to have left little mark in the specification of the projects chosen.

Taking each measure individually, the situation is as follows:

Measure 3.01: remediation and redevelopment of industrial and urban wasteland

The existence of this wasteland, particularly because of the industrial past of the areas concerned, is an obstacle to the development of the potential attractiveness of the Walloon Region insofar as both the general public and potential investors are concerned. Integration in a revitalization process that includes restoration and redevelopment of the site has therefore been established as a prerequisite for the selection of particular sites.

Measure 3.02: development of advance infrastructures and accessibility of development centres

Priority has been given to three types of infrastructures: relay buildings, the development of industrial zones and services, and access to the focal points of development and locations concerned.

Measure 3.03: urban revitalization and attractiveness of the local area

The object of the projects here is to improve the attractiveness and quality of the urban environment and public spaces. They include aspects relating to tourism, culture, mobility and heritage.

Of the 650 projects filed, 214 were selected (as at 16 July 2009). The choice of these was guided by the principles of agglomeration and concentration of resources within the framework of structural project portfolios, so as to avoid dispersion.

No detailed analysis was made of the projects in terms of their ability to generate profits. This may prove to be difficult insofar as some projects and project portfolios as proposed for ERDF funding are often only part of bigger investments which are either supported via other initiatives or designed to achieve profitability and agreed with private partners.

Specific targeting at urban environments was centred on three urban areas (the Liège-Verviers industrial area, Mons-Borinage-Centre and Charleroi). These are the areas that suffer most from the decline of economic activity, problems of exclusion and deterioration of the urban environment.

The following table gives details of the financial situation for each operational programme and each measure.

Table 1: situation on 16 July 2009 with regard to axis 3 for each Walloon operational programme

Programme	Measure	Dec. Total cost	Dec. Amount cofinanced	Dec. ERDF	Dec. Walloon Region/French Community	Dec. Other public operators
Competitiveness						
	Mesure 3.01 : Assainissement et réaffectation des friches industrielles et des chancres urbains	45,082,169.56	44,833,698.59	17,933,479.43	26,900,219.16	0.00
	Mesure 3.02 : Infrastructures d'accueil structurantes et accessibilité des pôles de développement	93,693,366.00	92,877,286.10	37,150,914.46	52,061,593.06	3,664,778.58
	Mesure 3.03 : Redynamisation urbaine et attractivité du territoire	172,745,385.76	172,314,660.10	68,925,864.03	90,678,608.52	12,710,187.55
	Total	311,520,921.32	310,025,644.79	124,010,257.92	169,640,420.74	16,374,966.13
Convergence						
	Mesure 3.01 : Assainissement et réaffectation des friches industrielles et des chancres urbains	75,025,584.00	74,883,804.00	29,953,521.60	44,930,282.40	0.00
	Mesure 3.02 : Infrastructures d'accueil structurantes et accessibilité des pôles de développement	92,546,554.43	92,382,857.36	36,953,142.94	51,407,767.06	4,021,947.36
	Mesure 3.03 : Redynamisation urbaine et attractivité du territoire	262,996,282.56	261,745,072.61	104,698,029.03	135,110,363.85	21,936,679.73
	Total	430,568,420.99	429,011,733.97	171,604,693.57	231,448,413.31	25,958,627.09
	TOTAL	742,089,342.31	739,037,378.76	295,614,951.49	401,088,834.05	42,333,593.22

Légende : Déc. = décision

This table underlines the greater importance of the "convergence" O.P. in the Walloon context, and also of measure 3.0.3 within each axis.

The budgets available for public projects were allocated totally by the Walloon Government following two calls for projects in accordance with the recommendation of the task force, which considered that this was the most coherent solution in view of the need to comply with the N+2 Rule⁸, the quality of the portfolios submitted, the indivisibility of some of them, and their structural impact.

Table 2 : budget expenditure for axis 3 as at 16 July 2009

Axis 3	Exp. Total cost
Total expenditure as at 16/07/09	6 623 110,16
Forecast total	743 089 342, 31
%	0.8 %

This expenditure involved less than 1% of the total budget for axis 3 in the following projects. It should be pointed out that axis 3 started later than the other axes, which explains the relative further progress as at 16 July 2009.

From Cerfontaine to Ri Jaune
Development of a spatial focal point in collaboration with the Redu ESA station
La Louviere - Extension of the city centre: Boch Keramis
Lake of la Plate Taille
Plan for development of Villers-la-Ville Abbey
Plan for development of Villers-la-Ville Abbey
Urban revitalization of the centre of Herstal
Strengthening of economic infrastructures of Picardy Wallonia

As at 16 July 2007, the expenditure relating to axis 3 was thus relatively low, indicating that most of the projects concerned were just starting off. Quite a number of projects in axis 3 had not actually started, notably because this type of project requires prior procedures.

Moreover, some expenditure by project beneficiaries was being checked by the competent services or had not yet been reported by the beneficiaries at this stage.

⁸ Rule of operation of the structural funds whereby any part of a commitment which has not been settled by the payment on account, or for which the Commission has not received an acceptable payment application, as defined in Article 32 (3), by the end of the second year following the year of commitment or, where appropriate and for the amounts concerned,

- in the two years following the date of a subsequent Commission decision necessary in order to authorize a measure or an operation or

- by the end of the deadline for the transmission of the final report referred to in Article 37 (1) is automatically decommitted by the Commission;

The contribution from the Funds to that assistance is reduced by that amount.

3. Analysis of the existing instruments for urban regeneration projects⁹ in the Walloon region

This chapter analyses the existing structures and instruments that could be used for the implementation of JESSICA in Wallonia. The terms of reference require it to include a description of the ability of the public authorities and regional agencies to provide funds of their own, loans, guarantees and other finance (apart from subsidies) for the urban regeneration projects, as well as the demand for such products.

Here we analyse the foundations of Walloon policy on urban renewal in its operational aspects, the strategic aspect having been covered in Chapter 1. These foundations were the subject of an article written jointly by Michael Van Cutsem and Gervaise Ropars of the Destrée Institute in the magazine *Territoire 2030*¹⁰.

In the Walloon Region urban policy is structured in five tools which differ in their nature and aims but are closely interrelated:

- urban renewal (1);
- urban revitalization (2);
- the "sites à réaménager" [sites to be redeveloped] (SAR), which notably relates to areas of economic stagnation (in the broad sense) (3)¹¹;
- the "zones d'initiatives privilégiées" [priority initiative zones] (ZIP) (4)¹²;
- urban consolidation (5).

The foundations of urban renewal in Wallonia were laid in 1973 within the framework of a number of pilot operations. They have not evolved much since that time, being essentially centred on specific urban renewal operations without geographical or socio-economic discrimination.

Conceived and developed by the municipality, the operation of **urban renewal**¹³ is an overall joint development measure that is intended to restructure, remediate or rehabilitate an urban area in such a way as to facilitate the maintenance or development of the local population there and promote its social, economic and cultural function with due regard to its specific cultural and architectural characteristics. In practice these operations have been conducted in a piecemeal manner, with few resources and without any real guidelines. The question of urban centres, where a number of problems are concentrated but which are also vectors of growth and employment, has not been a subject of political discussion until very recently and has not yet led to concrete action in many cases.

⁹ Urban regeneration is a concept that is not used much in Wallonia. As the analysis indicates, people there refer more to urban renewal and urban revitalization.

¹⁰ M. VAN CUTSEM and G. ROPARS, "Quelle place pour la prospective dans la politique des quartiers en Wallonie et à Bruxelles?" in *Territoires 2030 – Prospective urbaine et politique de la Ville*, DIACT, 2nd semester 2007, pp. 155-170.

¹¹ The new Article 167 of CWATUP widens the area of application of the Sites d'Activité Economique Désaffectés [Sites of Economic Dereliction] (SAED, now SAR). In actual fact some abandoned sites do not necessarily have an economic nature, even though this does not mean that they do not have a negative visual impact or potential for site improvement and generation of activities.

¹² The ZIP are not, properly speaking, a tool in the same sense as the other tools presented here: they are special zones which allow the existing tools to be broadened or developed.

¹³ The procedure relating to urban renewal is based upon Article 173 of the Walloon Code for Regional Development, Urban Planning and Heritage, hereinafter called CWATUP, and upon the provisions of the Order of the Walloon Regional Executive of 23 September 2004 concerning the granting by the Region of subsidies for the execution of urban renewal operations (Moniteur Belge 21 October 2004 and 4 November 2004).

Nevertheless, in 1994 the Walloon Region took steps to identify the locations presenting specific problems; these were listed as "**zones d'initiatives privilégiées**" [priority initiative zones] – ZIP - (4). They were identified on the basis of wide-ranging criteria (pressure on land, regional development, quality of housing, size of households, income level of the population, number of unemployed, etc.). The boundaries of the ZIP, created by bringing together statistical sectors, were subsequently adapted, then validated by the municipalities in order to take the local realities into account. Their boundaries have not been updated since 1994.

The ZIP thus still constitute the main intervention framework determining the boundaries within which operations aimed at districts in difficulty in Wallonia can be carried out. They have the objective of intensifying operations for the revitalization of population centres and combatting exclusion. Four types of ZIP have been created¹⁴. Only three of them relate to districts in difficulty:

- the ZIP of Type 1 relate to municipalities with heavy pressure upon land¹⁵, which constitutes an indicator of the dispersion of the tool on objectives that are not exclusively related to urban problems, as the zones with heavy pressure upon land are located more in the suburbs and are targeted by medium or high income groups.
- the ZIP of Type 2 are zones where there is redefinition of housing areas, namely districts where progressive deterioration is causing people to leave the area;
- the ZIP of Types 3 and 4 relate to districts and social housing estates (ZIP 4) where the population profile associated with socio-economic problems and poor-quality housing is causing social problems.

Public intervention in the districts in difficulty appears to be divided into different areas of responsibility: interventions for ZIP 2 and 3 fall within the competence of the Operational Development Division of the Wallonia Public Service, whereas the ZIP 4 are dealt with by the institutions responsible for social housing.

Since 1995, notably because of the impetus from the European Structural Funds, a regional programme entitled "Quartiers d'initiatives" [Initiatives Districts] has been specifically targeted at the ZIP of Type 3. Heavily oriented towards social integration, it focuses on restricted areas (districts) within a zone.

This programme, which was launched in the mid-1990s and updated in 2005, is managed by "régies de quartier" [district associations] for urban renewal¹⁶, based upon the model of the district associations developed in the social housing sector. The tasks of the latter are to ensure prior preparation of the people living in the district, to encourage the involvement of residents in urban renewal operations, to provide information, and to guide project developers from the district. The support team is made up of a helper and a social mediator. The creation of a district association and the activation of the ZIP – Initiatives Districts programme is initiated by the municipality and approved by the Walloon Government.

The area for an urban renewal operation may if necessary be wholly or partly located within the area of a ZIP. In reality most of the urban renewal operations are launched outside the ZIP.

¹⁴ Article 174 of CWATUP.

¹⁵ Municipalities where in 1991 the average sale prices for land were more than 50% higher than the regional average are classed as zones of Type 1.

¹⁶ District association: the service or association located in an initiatives district within a priority initiative zone of Type 3, such as referred to in Article 1, 3° of the Order of the Walloon Government of 7 July 1994 laying down the criteria for determination of priority initiative zones. Order of the Walloon Government of 11 May 1995 setting up district associations for urban renewal, repealed by the Order of the Walloon Government of 23 September 2004 concerning social housing organizations.

The urban renewal dossier or district plan is drawn up by the municipal authorities. It comprises a historical diagnosis of the district, a physical (town planning) diagnosis, a socio-economic diagnosis, and a section dealing with mobility. This is accompanied by subjective data, taking into account the wishes of the residents and users of the district. Following this diagnosis a master plan is formalized, indicating the projects to be carried out. This plan is then validated by the regional authority. On average two years are needed for creation of the district plan (creation of the dossier and approval by the Walloon authorities) and about twelve years for implementation of most of the measures in the plan. There is no time limit for implementation of the measures, which are often dependent upon obtaining finance from the regional authorities, sometimes even federal or European co-financing (e.g. under the old Objective 2 programme)¹⁷.

Despite wide-ranging aims, the measures focus heavily upon urban development and the general environment (cleanness, security, playgrounds and meeting areas, green spaces, etc.). Economic and functional aspects must be included, but are limited to a "proposed strategy for alleviating the lack of activities and facilities" detected by the diagnosis.

Moreover, Wallonia draws a distinction between urban renewal and **urban revitalization** (2), since at the start of the 90s urban revitalization operations were added to the measures taken under urban renewal operations. An urban revitalization operation is a measure intended for the improvement and integrated development of housing and living conditions within a clearly defined area, including trade and service functions, by the implementation of agreements between the municipality and the private sector. It can be seen therefore that there is considerable potential here for the development of public-private partnership operations, the financing of which could be analysed and adapted.

When a municipality and one or more natural or artificial private persons establish an agreement concerning an urban revitalization operation, the Region may, under the provisions laid down by the Government, grant a subsidy of up to 100% to the municipality covering the cost of:

1. development of areas in public ownership, corresponding to:
 - roads, sewerage, public lighting, utilities and surrounding areas;
 - landscaping of green spaces;
 - urban amenities for community use, as defined by the Government.
2. project royalties relating to the development of areas in public ownership, in accordance with the terms laid down by the Government.

The developments and property for which the aid is granted are located within an urban revitalization area which is decided by the Government on the recommendation of the municipal council.

The instrument is set up by concluding an agreement which must comply with the principle whereby for every euro paid by the Region the local stakeholders (the municipality and private operators) must invest a minimum of two euros, at least one of which must be for one or more of the following measures:

¹⁷ The Objective 1 intervention does not authorize renewal/revitalization. For Urban no renewal/revitalization project was involved.

1. the conversion and improvement of insanitary housing which can be improved;
2. the demolition of insanitary housing and the construction of housing at the same location;
3. the conversion of buildings with a view to the development of housing;
4. the construction of housing.

In order for the municipality to receive the subsidy, the municipal council must adopt an urban revitalization dossier and submit it to the Government.

The Government decides on the composition and procedure for approval of the urban revitalization dossiers, as well as the terms and conditions for granting and repayment of the subsidy.

The amount of the regional subsidy for urban revitalization is currently limited to 1,250,000 € per operation. This amount can vary from year to year.

An **urban consolidation** decree (5), adopted in June 2006, makes provision, with regard to town planning projects involving the redefinition and development of urban functions, for the possibility of creating areas within which major town planning projects can be implemented by means of an abridged procedure, notably by being able to waive planning regulations.

The broadening of the procedures that were initially intended for the conversion of derelict industrial sites to new sites called "**sites à réaménager**" [sites to be redeveloped] - **SAR** (3) makes it possible to apply for the relevant regional subsidies once a site has been finally recognized as an SAR: acquisition by a public body, redevelopment works – private and public sectors (here one can see the CWATP being opened up to the principle of operation as a PPP, as referred to in its Article 184, 3°, which can be directly consistent with the objectives of JESSICA). This is the mechanism which is activated at Herstal (cf. below).

Outside the area of development and town planning, about twenty Walloon cities are moreover taking advantage of city-centre aid facilities that have gradually been put in place since 1997.

In practice it must be acknowledged that the massive assistance with structural funds in Walloon urban areas (Hainaut and Liège industrial area) has aroused greater awareness in the major Walloon cities, as the amounts involved are considerable and more concentrated than those involved in the mechanisms presented here.

These operations co-financed by Europe have been conducted in a framework which, taken as a whole, has less structure than the Walloon "urban renewal" tool, except for the operations conducted via URBAN, focused on Sambreville, between 2000 and 2006. It is only from the 2007-2013 planning period onwards that project portfolios have been imposed, causing the cities concerned to think about an integrated strategy, with further impetus since 2000 from the Federal Policy for the Big Cities (cf. above).

This also explains the relative success of the Walloon tools compared with the support measures provided by the ERDF. More widely dispersed, sometimes centred upon operations of smaller scale, these do not seem to facilitate the emergence of genuine ambitious city projects, whereas the cumulative totals of the funds allocated for renewal and the funds taken up by revitalization measures are at least equal in volume if the entire period of ERDF implementation is considered.

By contrast, the ERDF, by concentrating greater resources upon a smaller number of projects, creates an impression of investments which are more "massive", but not necessarily more effective in terms of integrated urban development objectives: in point of fact the long-term structural effects upon the dynamism and attractiveness of the cities concerned have yet to be measured; nor has the ERDF avoided the wide dispersion of its "urban" resources over a number of cities.

4. Methodology for moving from public/private cooperation to coproduction

The title of this task, which also relates to the question of division of responsibilities, as well as the question of the returns on investment to be guaranteed for the stakeholders in the setting up of financial engineering mechanisms, presupposes that a culture of public-private partnership (PPP) is already firmly established in Wallonia.

At this stage of our analysis a number of documents and interviews have confirmed the exploratory nature of the discussions on large-scale public-private partnerships in Wallonia. PPPs were given priority for the first time in the Government's regional policy statement in 2004, in the context of putting 2000 additional housing units on the market, notably by the development of partnerships with the private sector and/or local authorities. They also figure in the "Contrat d'Avenir pour les Wallons" [Contract for the Future for the Walloons], which expresses the desire for a very broad approach towards PPPs.

A number of the documents consulted point out, moreover, that the concept of Public-Private Partnerships has not been given any legal definition either in European law or in Belgian law. The concept is therefore perceived as covering a large number of realities which sometimes turn out to be far removed from each other.

Various approaches are being explored in this regard by stakeholders such as the French Community (for the financing of schools), the Walloon Housing Society, and the local authorities. These measures are usually exploratory and highlight a number of complex issues – especially in the context of structural funds – which inhibit or discourage the emergence of initiatives: compatibility between PPPs and state aid, the requirement to comply with public procurement rules, flexibility in relation to the N+2 Rule, and the effective use of any proceeds available at the end of ERDF programming.

The Financial Information Cell – a body set up by the Walloon Region to ensure monitoring of the question of alternative finance and the accounts of "organismes d'intérêt publique" [public bodies] (PB) – was given the task of examining the question of the deployment of public-private partnership structures in Wallonia but did not meet our requests for information, admitting that it had made little progress in its discussions on the subject.

In spite of all this we were able to look through an internal note to the Walloon Government reporting on the work of a working group which was appointed to look at the possible establishment of a public-private partnership centre by developing and expanding an existing structure, namely the above-mentioned Financial Information Cell. This note takes stock of the existing PPP initiatives in Wallonia. We are waiting for permission to reveal its contents, which show the diversified nature of the initiatives in Wallonia and an equal degree of diversity in the approach to the concept of public-private partnership.

The idea of an association between public authorities and private operators is regularly put into concrete form in many different ways, notably by the creation of semi-public companies or semi-public inter-municipal associations, the development of public service concessions, public works concessions and public procurement contracts, and also work promotion contracts.

In the area of social housing, for example, a property investor of regional scale has started to invest in public-private partnership projects via a special investment programme amounting to a billion euros over a period of 5 years. In addition, the Walloon Building Federation has commissioned a *practical manual of public-private partnerships for builders in Wallonia*¹⁸. And the Walloon Housing Society has just set up two semi-public companies in a partnership framework with prospective financial partners.

In the French Community the interview that we had with the representative of the departmental staff of the Minister of Education gave us the opportunity to talk about the decree concerning the programme of exceptional finance for projects involving the renewal, construction, reconstruction or extension of school buildings via public/private partnerships, which was adopted on 12 November 2008. A provisional budget of a billion euros could be allocated to renewal of the school buildings in this way. A pilot project has already been launched – the private partner is to be decided on during the first half of 2009. This decree provides for the establishment of a cell within the Ministry of the French Community; the practical details of its composition, operation and installation are being finalized.

For their part the private financial institutions that we questioned also intend to take up a position on structural and long-term projects. Notably in areas relating to renewable energy and green technologies, via the outside investor mechanism, which is currently being studied in the government department responsible for energy.

An interesting initiative which should be mentioned here is the establishment of a "Crossroads Bank" [Banque Carrefour] for urban regeneration, which is intended to be a meeting place for all the initiatives aimed at revitalizing urban housing areas in Wallonia in direct association with the opportunities offered by the urban renewal and urban revitalization tools. It has been initiated jointly by the Walloon Region, the Walloon Building Confederation and the Union of Cities and Municipalities in Wallonia. This tool is intended to provide better information to both the public and the private stakeholders on the possibilities of partnership opened up for them by the existing legal and administrative tools, as well as the aid that the Walloon Region can give them in this area. It presents some examples of implementations where the nature and diversity of the arrangements confirms the exploratory nature of the measures taken. Among them are a number of projects – with housing as the principal component – which in practice are essentially public partnerships. The principal private stakeholders engaged in these projects are from the real-estate sector and are involved at the project implementation level.

To sum up on this point, there are thus grounds for organizing a meeting between converging interests among the public and private stakeholders, but there is also a need to find a clear language which is understood by everybody – including the question of observance of the basic rules of competition and state aid. The idea of a possible coproduction seems very much to be premature at this stage, however.

¹⁸ Produced by K. Moric and R. Pollet in March 2009

5. Identification et analyses des structures et partenaires potentiels

The task here is to paint the overall picture of the stakeholders and structures that are potentially affected by JESSICA in the following sectors: banks and other commercial and financial institutions, international institutions, public agencies and other public institutions, investment funds, property developers, NGOs, etc. In order to draw up this list we contacted and met several types of operators:

- the representatives of the Walloon Government Ministers who are principally concerned by this topic, as well as a representative of the Ministry of Education of the French Community;
- the competent administrative services and public bodies;
- stakeholders and experts in financial engineering and PPPs;
- bodies actively involved in public investment in Wallonia.

The following table shows the interviews and research conducted for this purpose.

	JESSICA – Implementation in the Walloon Region		
		Organization	Comment
Public authorities	1	Walloon Region – Demotte cabinet	Completed
	2	Walloon Region – Antoine cabinet	Completed
	3	Walloon Region – Lutgen cabinet	Completed
	4	Financial Information Cell for the Walloon Region	Negative response
	6	Walloon Region – Walloon Housing Society	Completed
	10	Walloon Region – Structural Funds Department	Completed
	11	Walloon Region – Local Authorities DGO	Completed
	12	French Community – Dupont cabinet	Completed
Private sector & Walloon financial stakeholders	1	Asbl PPP Wallonia Brussels – network of responsibilities	Completed
	4	Dexia Banque	Completed
	5	Fortis Bank	Completed
	6	Valens	Completed
	7	SRIW and subsidiaries	Completed
	8	Regional Centre for Aid to the Municipalities	Reading of reports on activities

We also contacted the local stakeholders responsible for development (inter-municipal economic development associations and local authorities) and for the implementation of city projects, in order to identify the main thematic areas and projects that could fall within the framework of JESSICA.

What is the position, therefore, with regard to the ability of the local authorities and regional agencies to provide funds of their own, loans, guarantees and other finance for urban regeneration projects?

The following table succinctly sums up the position of the various institutional and private stakeholders active in Wallonia and their potential role if Jessica is implemented.

Looking at this table we can highlight two major findings:

- the relatively small number of operators capable of getting involved in a UDF at regional level, notably in terms of operational management. This is explained by the small number of operators who genuinely have the cash flow to put into JESSICA;
- the greater potential at regional and local level for contributing to projects that could be eligible for a UDF, and an interest in principle on the part of some key stakeholders, including the municipalities and some thematic operators, in benefiting from such an instrument.

There is thus potentially a supply and demand to be organized, but with conditions of feasibility which must be demonstrated later on the basis of concrete examples, such as those presented in the remainder of the report.

Stakeholder	Situation	Interest in Jessica	Degree of involvement in a UDF
Walloon Government	A decision-making body, it has just appointed a Minister for the City, while the Prime Minister of the Walloon Government remains responsible for coordination of the dossiers concerning European Structural Funds. This is the level at which decisions on the projects to be supported are made, via a task force set up for this purpose.	<p>At this stage the interest in JESSICA has been manifested via the question of the intervention of the financial engineering tool in the Structural Funds, which raises a number of technical questions (relating to consumption, expenditure, etc....) and questions of feasibility (the funds having been fully allocated). In this context there is thus cautious but open-minded acceptance.</p> <p>In more general terms, the question of the role of a UDF-type tool in Wallonia – apart from structural funds – has not yet been dealt with as such. Looked at from this point of view, it could involve different partners and lead to greater interest in the JESSICA initiative. This is the scenario which is developed at the end of this report.</p>	At the level of the decision to arrange a UDF.
Service Public de Wallonie [Wallonia Public Service] (SPW)	As the body executing the decisions of the Walloon Government, the SPW is responsible for the day-to-day management of a large number of tools directed towards the municipalities. A number of departments are involved, depending on the thematic areas concerned.	It will vary, depending on the departments concerned. It can be assumed that both strategic and technical discussions will be necessary if a UDF is put in place in Wallonia, since in most cases the current tools operate in a direct subsidy context. This raises the question of the SPW's ability to administer the tool in house or delegate this task.	At the level of arranging a UDF (injection of funds), or even in terms of management.

Stakeholder	Situation	Interest in Jessica	Degree of involvement in a UDF
Wallonia Regional Investment Company	The "Société Régionale d'investissement de Wallonie" [Wallonia Regional Investment Company] (S.R.I.W.) and its subsidiaries forming the S.R.I.W. Group have the task of providing long-term financial support to businesses with the aim of directly or indirectly fostering the economic development of the Walloon Region. They take part in business redeployment, modernization and growth projects.	From the very outset the SRIW has shown its interest in JESSICA and would like to know more about the operational and financial conditions. Depending on the scenarios envisaged (cf. below) the SRIW may get involved in a task which, albeit in a new field, is nevertheless close to its basic task. Any involvement of the SRIW in a UDF, however, would need a clear mandate from the Walloon Government and ad hoc staff recruitment as required.	At the level of arranging a UDF and in the operational management of the UDF.
Cities and municipalities	Often (and structurally) short of money, the cities and municipalities in Wallonia essentially depend on fiscal revenue and subsidies in order to be able to invest in new projects. They face structural funding problems and also increasing needs in terms of socioeconomic development in the broad sense. In terms of urban renewal there are a large number of projects, whatever the particular circumstances may be, as is shown by the range of projects put forward for aid from the Structural Funds.	The municipal stakeholders whom we met and with whom we discussed the possibilities offered by Jessica generally showed interest in this mechanism. In the current ways of working the local authorities regularly borrow from financial organizations, depending on the investment projects under development. It is also stressed that at local level there are other "paramunicipal" operators that can be enlisted in setting up projects: "régies communales autonomes" [autonomous municipal companies] (RCA), housing societies, etc....	At project level, often in partnership with other stakeholders

Stakeholder	Situation	Interest in Jessica	Degree of involvement in a UDF
The "Centre Régional d'Aide aux Communes" [Regional Centre for Aid to the Municipalities] (CRAC)	<p>The "Centre Régional d'Aide aux Communes" is a public body created in the Walloon Region to</p> <ul style="list-style-type: none"> - provide a structural solution to the problem of the municipalities' cash shortages - help maintain sustainable budgetary equilibrium in the local authorities by monitoring and advising on financial management. 	<p>The CRAC often intervenes if municipalities have a structural financial problem. It does not have the power to invest in a fund but can provide the municipalities with a new perspective on their ability to get involved in projects to be submitted to a UDF. At all events it is a stakeholder that should be brought into strategic discussions on reshaping the tools for support of urban renewal, notably so as to assess the municipalities' ability to invest in the projects envisaged.</p>	At project level.
The inter-municipal economic development associations	<p>The inter-municipal economic development associations, of which there are 8 in Wallonia, are key stakeholders in the development of the regional economic catchment areas. They are major operators in many projects financed by the structural funds, at least in the spheres of economic activity (activity zones, mobility, economic stimulation). Some of them have broadened their area of action to include urban regeneration projects and have consultants available who are competent to manage these projects.</p>	<p>Because of their cash reserves and operational management ability these stakeholders cannot really be overlooked in the management of complex projects which include a territorial development aspect. With these advantages the inter-municipal associations are stakeholders that should be brought into projects, even in a UDF which is centred on an economic subcatchment and structured around a "robust" project portfolio. The inter-municipal association will probably show more interest in the operational aspect than in the financial aspect.</p>	At project level.

Stakeholder	Situation	Interest in Jessica	Degree of involvement in a UDF
The "organismes régionaux d'intérêt public" [regional public bodies] (PB)	There are many PBs in Wallonia. They are quasi-administrative bodies that manage a variety of thematic areas. In this context mention should be made of the "Société wallonne du Logement" [Walloon Housing Society] (SWL) and SPAQuE (Société publique d'aide à la qualité de l'environnement) [Public Association for Enhancing the Quality of the Environment], which are potential operators for relevant UDFs. Other organizations are no doubt of potential interest, depending on the nature of the UDFs envisaged.	These stakeholders have highly operational tasks which justify major transfers of funds. They therefore have a considerable number of projects in their portfolio, with even greater requirements to be met. SWL has already expressed interest in getting involved in an instrument such as JESSICA and is also developing PPP concepts. With certain guarantees they could get involved in a UDF of a thematic nature, via a partnership with the regional authorities. The network of social housing societies in Wallonia can also be brought in, just like SWL, at project level. Insofar as SPAQuE is concerned, there is the same potential for rehabilitation projects, even though it does not have such a strong regional foothold at local level and especially in urban areas.	At project level, even in a thematic UDF
Banks, financial institutions and private structures	A number of them are favoured partners of the Walloon local authorities: Dexia, ING, AXA. Other potential partners that we met are involved in various PPP projects. Some of them can claim to manage a UDF, based on a more in-depth analysis.	It is apparent from the interviews that these operators are available for financing projects to be put forward to a UDF. Their interest in getting involved in the UDF itself has not been confirmed.	At project level. Possibly at the UDF management level.

Stakeholder	Situation	Interest in Jessica	Degree of involvement in a UDF
<p>"Union des Villes et des Communes de Wallonie asbl" [Union of Cities and Municipalities in Wallonia] (UVCW)</p>	<p>The "Union des Villes et des Communes de Wallonie" represents all the local authorities in the Walloon Region. Its aim is to help them perform their tasks in the service of the local residents, and to ensure the promotion of their actions, their autonomy and thus local democracy. Its actions involve promotion, advice, provision of information, and a form of lobbying on behalf of the Walloon municipalities. It has a counterpart at provincial level.</p>	<p>By virtue of its local knowledge and its consultancy service, which produces high-quality technical and legal analysis documents, the UVCW can be a technical partner of high calibre in the context of setting up a UDF. If necessary it can also help to increase awareness and train the local authorities in the application of the tool at local level.</p>	<p>With the status of an observer or expert in a UDF of complex structure (cf. Scenarios 2 and 3 explained below). As an associated expert at project level.</p>
<p>"Confédération Construction wallonne" [Walloon Building Confederation] (CCW)</p>	<p>The CCW is the Walloon regional component of the "Confédération Construction" [Building Confederation], the central organization and cooperative organ of the local chambers and professional federations of the construction industry in Belgium. About 14,000 enterprises of all shapes and sizes are affiliated to the building confederations, including almost 5,000 in Wallonia.</p>	<p>Like the UVCW, the CCW, as the spokesman for the construction sector in relation to the public authorities, can be a useful partner in making a UDF operational. The sector is in point of fact a recipient of tools facilitating public-private partnerships in the sphere of urban renewal. The CCW can also help to increase awareness and train its members so as to facilitate their involvement in setting up projects to be submitted to UDFs.</p>	<p>As an associated expert at project level.</p>

6. Identification and overview of projects for which a JESSICA type fund could be created

The projects financed by Axis 3 in the two programmes were the main focus of our attention. To carry out a screening process, in the first instance we asked the committee monitoring the study to choose five selection criteria for evaluating to what extent projects from the 2007-2013 programming period could serve as case studies for the financing instrument. These criteria were as follows:

1. The projects must relate to an **urban agglomeration** with a population of more than 60,000¹⁹. This is the demographic criterion chosen by the Federal Policy for the Big Cities for cities to be eligible for the city policy tools (cf. above, Chapter 1). It must be stressed that the approach of this city policy considers urban agglomeration phenomena and often goes beyond the administrative boundaries of the cities identified. This is also found in the SDER.
2. The projects must preferably fall within the guidelines laid down by the programming documents relating to **assistance with Structural Funds** in Wallonia.
3. The projects must form part of an **integrated plan for urban development**.
4. The projects or project portfolios must be of a certain **scale in terms of funds raised**, notably so as to be able to appeal to European financial stakeholders and the private sector. A minimum of 25 million euros was set for screening the portfolios concerned.
5. **Potential sources of revenue** must be identifiable in the aims of the project: the project must not be profitable under normal market conditions and the use of JESSICA can be combined with subsidies, but the project must provide revenue, in the current state of the project or, if necessary, after adjustment of the project, the idea being that the funds should be used in a renewable way. This criterion is particularly delicate insofar as the predominant approach in the use of structural funds in Europe – because of the rules of operation laid down by the European Commission – has been to focus on projects without revenue, often physical infrastructures of a non-commercial nature: public road networks, heritage, infrastructures.
6. Projects where the project **execution structure** has not yet been fixed and it should be possible to expect a certain degree of openness towards JESSICA.

In the next chapter we will deal in greater detail with the projects selected by the Monitoring Committee.

¹⁹ The Walloon urban agglomerations meeting this criterion are Liège, Charleroi, Mons, La Louvière, Seraing, Namur and Tournai. If this threshold was reduced to a population of 50,000, Mouscron and Verviers would also have to be considered.

The following table shows the position of six portfolios chosen, a grouping of portfolios (Mons) and a project outside the ERDF (Pré-madame), applying these different criteria:

ERDF programming 2007-2013	Subject area	PIDD	Volume (Total cost)	Financial profitability	State of progress	JESSICA potential
Development of the area around the Liège TGV station	Public infrastructures (square, platforms, footbridges)	Yes		Low	In execution	Low
Innovative development of the urban cultural attractiveness of Liège	Renewal (Opera, and especially MAMAC)	Yes		Medium	In preparation	Medium
ECOPOLE – creation of a focal point for sustainable development activities	Roads + Remediation of wasteland	Yes		Medium	In preparation	Medium
MONS, focal point for growth OBJECTIF 2015	Revitalization of the city	Yes		Medium	In preparation	Medium
Integrated revitalization of Tournai city centre	Development of the area around the Cathedral	+/-		Average to high	In execution	Medium
La Louvière – Extension of the city centre: Boch Kéramis	Rehabilitation of an old industrial site + construction of a new district	Yes		Average	In execution	Medium
Phénix Project – Charleroi downtown area	Pedestrian areas, public spaces, footbridge, covered forum, squares...	Yes		Average	In preparation	Medium
"Pré-Madame" Project – Liège-Herstal (not selected for programming!)	Redevelopment of an urban wasteland as housing and shopping areas	Yes	50,000,000 ²⁰	High	Pre-execution	High

²⁰ It is important to point out here that the amount of 50 million euros indicated does not correspond to the amount requested from the ERDF by the developers of this project. The total cost here includes the other financial contributions relating to this project.

Apart from the projects identified within the portfolios, a number of across-the-board thematic areas stood out and might also be the subject of an exploratory study as part of the implementation of Jessica.

In particular we had noticed the thematic area of cultural investments, which can be seen at Mons and Liège in particular but which also runs through other city projects.

The thematic area of mobility, with the question of public transport in particular, is also a path to follow.

Finally the thematic area of energy, in its "RUE" and "renewable" aspects, is a path which is interesting but paradoxically scarcely to be found in the projects selected in Wallonia, with one exception.

We also investigated the area of school infrastructures which fall outside the responsibility of the Walloon Region and concern the cities as much as rural areas.

On reading the OPs and looking at the projects selected, one major thematic area seems to stand out, **the remediation and rehabilitation of contaminated industrial and urban wasteland.**

Rehabilitation of contaminated sites – Convergence objective	Mesure 3.01 : Assainissement et réaffectation des friches industrielles et urbaines	Binche - Site Sainte-Barbe	2 904 000,00
	Mesure 3.01 : Assainissement et réaffectation des friches industrielles et urbaines	Charleroi - Site Saint-Louis	2 654 000,00
	Mesure 3.01 : Assainissement et réaffectation des friches industrielles et urbaines	Châtelet - Site Boma	15 000 000,00
	Mesure 3.01 : Assainissement et réaffectation des friches industrielles et urbaines	Farciennes - Centrale électrique de Farciennes	8 000 000,00
	Mesure 3.01 : Assainissement et réaffectation des friches industrielles et urbaines	Hensies - Site Les Sartis	2 904 000,00
	Mesure 3.01 : Assainissement et réaffectation des friches industrielles et urbaines	Jemappes - Site Laminoirs de Jemappes	5 500 000,00
	Mesure 3.01 : Assainissement et réaffectation des friches industrielles et urbaines	La Louvière - Site Javel-Lacroix	1 500 000,00
	Mesure 3.01 : Assainissement et réaffectation des friches industrielles et urbaines	Quaregnon - Site Canon-Legrand	1 686 400,00
	Total		40 148 400,00

Apart from the financial volume that the projects represent, the thematic area concerns a major part of the Walloon urban fabric, containing the majority of the wasteland identified in Wallonia and involving a very large volume of investment which will be needed for at least two decades. Fitting precisely within the legislative framework, this

thematic area thus calls for innovative responses, notably in terms of perpetuity of the resources available. As the Walloon Region has set up specific funding structures (SOWAFINAL), interesting ventures can be envisaged via the designation of a thematic fund.

It must be stressed, however, that reconversion figures only rarely in ERDF programming, and usually on an exploratory basis. In the JESSICA philosophy this reconversion becomes a major stake in the project and involves interaction between the remediation operator (SPAQuE) and the territorial development stakeholders.

The choices of the monitoring committee have not backed this across-the-board approach, but the thematic area of remediation of urban and industrial wasteland remains represented in the selection of one of the projects (écopôle) and it will therefore be useful to analyse it.

In the JESSICA philosophy the planning of the project must be accompanied by consideration of the financial profitability expected from the project and the conditions of intervention that act as a genuine incentive for the operators. **This dimension is usually missing** from the method of setting up the projects selected, as the practice – all over Europe! – has been to develop projects that do not generate any revenue, notably because of the administrative constraints tied to the recognition and repayment of the said revenue, even the legislation concerning state aid. It can therefore be useful to emphasize that the projects selected have been conceived in a "classical" project setup approach: the term "classical" here refers to a financial understanding of the financing mechanics which prevails at the level of the ERDF (and the ESF) in Wallonia and elsewhere in Europe, according to which

- firstly, 100% of the financial risk is shouldered by the public authority alone (in this case the local operator, the region concerned, the European Union);
- secondly, the subsidy is completely spent once the operation is finished (*one-shot*).

This results in a range of projects (and project portfolios) which are socially viable and with great potential in terms of economic development, but financially costly insofar as the mechanisms for refinancing or recycling the funds have not been given consideration. There are very few mixed projects as such, in spite of the real desire at local level to develop and promote them.

Moreover, for each of these projects the commitment and implementation procedures follow their usual course. It is difficult, therefore, to adapt the mechanisms and rules of operation along the way.

One possibility to be explored, in the case of projects that have not actually got underway, is to set up an Urban Development Fund (UDF) which allows faster disbursement of the whole of the amount and demands a broadening of the aims of the project, via the intervention of other partners, notably by the inclusion of associated projects which are not covered by the ERDF but which are an integral part of the city project.

This possible approach is developed in the remainder of this report, using three pilot projects as examples.

7. Proposed pilot projects

The pilot projects that we present below were selected on the basis of the analytical grid presented in the preceding chapter. Two of them are from the list of projects (and project portfolios)²¹ financed by the ERDF: the Mons Congress Centre and the Charleroi Ecopôle.

The third project (Pré-Madame) was rejected by the task force set up by the Walloon Region because of its link to housing. We thought it would be useful to include it in the JESSICA feasibility study, however, because:

- it is located in the "competitiveness and employment" zone, unlike the two preceding projects, which are located in the "convergence" zone;
- it has progressed further than most of the ERDF projects, which are often at quite an early stage;
- of the steps already taken by its promoters to be supported by JESSICA;
- it involves a housing project, which is a key thematic area for Wallonia and a substantial line of finance in the regional budgets.

7.1. The Mons Congress Centre

A few extracts from the project factsheet give some idea of the raison d'être of the project.

In Mons, which is a city in Hainault with a population of 90,000, the station district has been and still is a densely populated multicultural area. The district is of a mixed nature, with elements that have potential for development, such as a 3-star hotel and a Haussmann-type architectural complex, but also weak features which impair the city's image (rundown buildings, unoccupied spaces, insecurity...).

Aware of the dual face of the area, with both economic and cultural heritage aspects, the City of Mons has created an ambitious portfolio of projects to redevelop, revitalize and literally transform a district with a wide range of opportunities.

The station district is also the link between the New Town (Grands Prés shopping centre, administrative centre, the Initialis business park, the cinema complex...) and the Old Town, taking into account its close proximity to the tourism hypercentre.

In concrete terms the City of Mons plans to purchase the land released by the SNCB along the railway lines (on the Old Town side) in order to develop a business centre there which would constitute an architectural showcase alongside the new station and the dragon-shaped footbridge designed by Calatrava. This would be made up of a conference centre which would include a multi-purpose hall and an office complex, without subsidies. This choice has been made with the aim of developing the tourism niche market that is of greatest appeal for a city: business tourism. By investing in this strategic location, therefore, the City of Mons wants to acquire the things that can give it a new economic dynamic.

²¹ For the remainder of the report, in order to comply with the rules concerning each case studied, it should be emphasized that:

- the Pré-Madame project is not a project subsidized by the ERDF in Wallonia
- the Mons Congress Centre is a project that forms part of a wider portfolio
- the Ecopôle is a project portfolio.

The generic term "project" has been used for all the dossiers analysed, bearing in mind the subtle distinctions explained again here.

The Congress Centre is justified by the fact that apart from the Liège Congress Centre (which is 150 kilometres away from Mons) there is no infrastructure of this kind in Wallonia which can accommodate professional clients who are looking for a facility of this type.

It should be emphasized that this is only a partial view of the neighbouring competition with regard to conference centres, since Brussels (70 km) and Lille (80 km) are also major conference centres outside Wallonia, while Gent Congres (100 km) also offers this facility for Flanders. Of these, the Lille-Grand Palais is undoubtedly the most competitive, the other facilities being older. This is why it is useful to point out here that the programme – as currently envisaged and described below – is not finalized and will be examined in greater depth in 2010 with regard to its precise final planning, so as to take this competition into account; the ultimate aim is to create a conference centre which is adapted to the city's needs and ambitions, is commercially viable and contributes to the urban revitalization of the Mons city centre.

The project – as currently defined – nevertheless entails the construction of a complete infrastructure meeting the growing demand from professional people who come to the administrative centre of the city. In addition this infrastructure could develop its potential as a multi-purpose hall for various types of exhibitions, notably in connection with MONS 2015, capital of culture.

In concrete terms the project entails:

- the construction of an infrastructure with an area of 6500 m² and a total seating capacity of about 2000, broken down as follows:
- an amphitheatre-type lecture hall with a seating capacity of 500;
- a lecture hall with a seating capacity of 300;
- two lecture halls with seating capacities of 200;
- 10 to 15 rooms with an area of 20 m²;
- the possibility of installing removable translation cubicles;
- a restaurant/catering area with a seating capacity of 500;
- a reception area and exhibition area;
- offices for people attending conferences;
- a multi-purpose hall.

The estimated costs for which cofinancing is requested are as follows:

Rubrique	Détails des postes	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Achat de terrain(s)		0,00	1.000.500,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	1.000.500,00
Aménagement de terrain(s)		0,00	0,00	100.000,00	0,00	0,00	0,00	0,00	0,00	0,00	100.000,00
Aménagement/construction de bâtiment(s)		0,00	0,00	3.115.800,00	18.592.800,00	9.184.315,18	0,00	0,00	0,00	0,00	30.892.915,18
COÛT TOTAL		0,00	1.000.500,00	3.215.800,00	18.592.800,00	9.184.315,18	0,00	0,00	0,00	0,00	31.993.415,18

Années	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
FEDER	0,00	400.200,00	1.296.320,00	7.437.120,00	3.673.726,07	0,00	0,00	0,00	0,00	12.797.366,07
Région wallonne / Communauté française	0,00	500.250,00	1.607.900,00	9.295.400,00	4.592.157,59	0,00	0,00	0,00	0,00	15.995.707,59
Opérateurs publics	0,00	100.050,00	321.580,00	1.859.280,00	918.431,52	0,00	0,00	0,00	0,00	3.199.341,52
Montant cofinancé	0,00	1.000.500,00	3.215.800,00	18.592.800,00	9.184.315,18	0,00	0,00	0,00	0,00	31.993.415,18
Coût total	0,00	1.000.500,00	3.215.800,00	18.592.800,00	9.184.315,18	0,00	0,00	0,00	0,00	31.993.415,18

Main points of interest of the project

- It forms part of an overall project for revitalization of a city centre;
- it forms part of a strategy for cultural development of the city, focused upon the horizon 2015 and the Mons, European Capital of Culture project;
- it offers attractive revenue potential;
- it involves a group of local public stakeholders that can provide guarantees to private investors.

7.2. The "Ecopôle"

The urban area of Charleroi, the biggest city in Wallonia, has a population density 6 times greater than the regional average, but like other big cities it exhibits worrying socio-economic indicators:

- an average income level 16.8% lower than the average Walloon income;
- a level of employment that has been almost stagnant over the last decade.

In spite of concentrated efforts and a favourable economic climate, the region thus suffers from a high rate of unemployment and a poor brand image which inevitably affects its appeal.

The average growth rate of the area is significantly higher than the rate in Wallonia as a whole, because of the businesses which are established there and which have made considerable investments.

For a number of years there have been major efforts for economic conversion of this old industrial area, in spheres such as specialized advance infrastructures (Aéropole Charleroi), networks facilitating the creation and development of the local economic fabric (business centres, business promotion), research centres and centres of excellence (Cenaero, Biovallée, Cetic, Techno-futur), the multimodal approach (Charleroi-Châtelet platform), the progressive rehabilitation of rundown areas and the development of a regional airport (BSCA).

The Ecopôle as such involves the cities and municipalities of Charleroi, Châtelet, Aiseau-Presles, Fleurus, Farciennes and Sambreville, which have agreed to implement a regional development strategy at supra-municipal level for the period 2010-2015, entitled "A project for regional, economic, environmental and social redevelopment along the Sambre river valley". This overall project (which in reality is a portfolio of projects) is based on the establishment of a regional context; objective reports in terms of spatial organization, environment, economics, mobility and accessibility; a SWOT analysis and a genuine overall strategy, centred on an inter-municipal dynamic based on several structural axes to the east of the Charleroi area:

- strengthening the urban structure, the attractiveness of the region, and living conditions;
- fostering the creation of new accommodation facilities within the conurbation by an integrated and accelerated programme for the rehabilitation of industrial wasteland;
- guaranteeing enterprise development and favourable conditions for incoming businesses;
- managing accessibility and mobility in relation to existing and future activities.

The outcome of all these prior stages is manifested in 15 major actions, to be carried out in the old Sambre industrial river valley. The ECOPOLE operation encompasses

several of these actions via the implementation of a focal point for economic activity oriented around sustainable development potentials.

The project provides a response to several major challenges in the region:

- the lack of spaces to accommodate enterprises that create jobs and value added (need to create +- 500 ha);
- the need to concentrate enterprises and their partners geographically and sectorally (cluster concept);
- the urgent need to pursue the industrial wasteland remediation and redevelopment policies in a concentric manner (concept of remediation clusters);
- the desire to continue the development of the multimodal approach, thus ensuring major renewal of the rundown urban environment and coherent development of economic infrastructures.

Within the project portfolio our attention was drawn particularly to Projects 4 and 5 because of their genuine - albeit limited - revenue potential, but also because they allow pilot cases to be tackled in the thematic area of industrial wasteland remediation, a problem which is particularly acute in Wallonia.

The estimated costs for which cofinancing is requested are as follows:

- Project 4: Remediation and redevelopment of the industrial wasteland sites "Terril de Bonne Espérance" and "Terril Saint-Jacques", exploitation of the real-estate potential and establishment of the technical infrastructures;

Rubrique	Détails des postes	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Achat de terrain(s)		0,00	0,00	400.000,00	0,00	0,00	0,00	0,00	0,00	0,00	400.000,00
Aménagement de terrain(s)		0,00	94.700,00	1.351.636,00	4.607.562,00	1.504.286,00	0,00	0,00	0,00	0,00	7.558.184,00
COÛT TOTAL		0,00	94.700,00	1.751.636,00	4.607.562,00	1.504.286,00	0,00	0,00	0,00	0,00	7.958.184,00

Années	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
FEDER	0,00	37.880,00	700.654,40	1.843.024,80	601.714,40	0,00	0,00	0,00	0,00	3.183.273,60
Région wallonne / Communauté française	0,00	56.820,00	1.090.981,60	2.764.537,20	902.571,60	0,00	0,00	0,00	0,00	4.774.910,40
Opérateurs publics	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Montant cofinancé	0,00	94.700,00	1.751.636,00	4.607.562,00	1.504.286,00	0,00	0,00	0,00	0,00	7.958.184,00
Coût total	0,00	94.700,00	1.751.636,00	4.607.562,00	1.504.286,00	0,00	0,00	0,00	0,00	7.958.184,00

- Project 5: Remediation and redevelopment of the industrial wasteland sites "Charbonnage Saint-Jacques" at Aiseau-Presles, "Grand Champ" at Farciennes and "Centrale Electrabel" at Farciennes, decontamination and viabilization;

Rubrique	Détails des postes	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Aménagement de terrain(s)		0,00	252.000,00	600.000,00	10.017.000,00	0,00	0,00	0,00	0,00	0,00	10.869.000,00
COÛT TOTAL		0,00	252.000,00	600.000,00	10.017.000,00	0,00	0,00	0,00	0,00	0,00	10.869.000,00

Années	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
FEDER	0,00	100.800,00	240.000,00	4.006.800,00	0,00	0,00	0,00	0,00	0,00	4.347.600,00
Région wallonne / Communauté française	0,00	151.200,00	360.000,00	6.010.200,00	0,00	0,00	0,00	0,00	0,00	6.521.400,00
Opérateurs publics	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Montant cofinancé	0,00	252.000,00	600.000,00	10.017.000,00	0,00	0,00	0,00	0,00	0,00	10.869.000,00
Coût total	0,00	252.000,00	600.000,00	10.017.000,00	0,00	0,00	0,00	0,00	0,00	10.869.000,00

Main points of interest of the project

- specifically oriented towards sustainable development;
- opens up and interlinks the eastern side of Charleroi;
- supramunicipal dimension and involvement of local stakeholders;
- pilot project for the industrial wasteland dimension.

7.3. The "Pré-Madame" project

The "Pré-Madame" is an old site that belonged to FN, an armaments factory which is still in operation, located at Herstal, its historic birthplace. Its owner, the New Market company, has been renting industrial sites there for about fifteen years. The occupancy rate is about 50%, mainly at ground level. In order to use the remaining space they thought about the possibility of offering housing. The project was started almost four years ago.

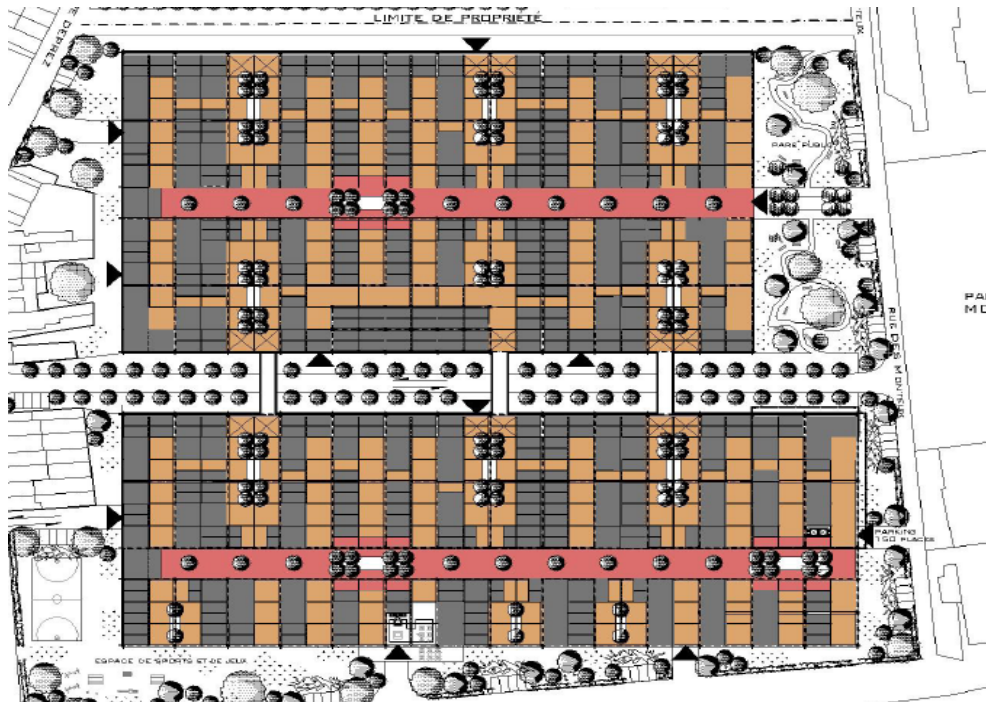


The total investment is assessed at 50 million EUR. Within the framework of the 2007-2013 programming a support measure with ERDF funds had been requested for an amount of about 7.3 million for everything apart from the housing. But the project was not selected, precisely because of its link with the thematic area of housing. The ERDF regulations were amended at the beginning of this year and now allow the energy performance of social housing to be eligible. The SWL has informed the Government of the advisability of bearing this opportunity in mind in the event of reallocation.

The partners are SRLH (Herstal Housing Society) and the New Market company, which have ratified an agreement approved by the Walloon Housing Society and the Minister of Housing. The municipality of Herstal is also involved insofar as the development of the surrounding area is concerned.

SRLH is not cofinancing the investment but is assuming the occupation risk and obtaining a leasing right for a period of 30 years. The private partner intends to assume responsibility for construction and maintenance. Suspensive conditions have been established. It has been decided that 85% will be used for private housing and the remaining 15% for public housing. These amounts have been fixed in order to remain consistent with the figure of 12%, which is the percentage of public housing in the Herstal built-up area. The calculation of the lease charges is fixed. The construction will be phased over a period of four to five years. SRLH has made a firm commitment for the first development (about 150 homes) and has a right of first refusal on the second one.

The private partner, for his part, has made commitments to the municipality but is keeping open the possibility of changing the project.



Insofar as the services available at ground level are concerned the owner's idea is to carry out a progressive conversion so as to orient activities towards neighbourhood services, especially in view of the fact that there is nothing in the district. That will take time. There are at present 250 people working on the site and the contracts are still running. Ways will have to be found of rehousing the existing activities.

The project involves an amendment to the sector plan, which classes the area as an industrial site. If it is recognized as SAR (site for redevelopment) CWATUP allows exemption from this rather onerous procedure and waiver of the requirements of the sector plan. The SAR recognition procedure is in progress. In addition, the city has promised its support in adapting the external infrastructures and urban amenities (urban revitalization operation). Housing aids are also involved. An impact assessment will also have to be made before planning permission can be obtained.

The relevance of the project will be checked by means of a market analysis, which will be completed in September and which appears positive, according to initial information. That will be the last stage before applying for planning permission.

Main points of interest of the project

- break-even point;
- state of progress and concrete nature of the project;
- bias given to the project, areas involved, architectural and energy dimensions;
- allows the housing question to be explored, a vector for major investments in the Walloon Region.

8. Case studies

This part of the report is the object of a separate document produced by IDEA-Consult, which is appended to the present document.

9. Three scenarios for the implementation of Jessica in Wallonia

9.1. Extrapolation from the cases presented

The case studies related to three contrasting examples of urban regeneration in the broad sense. These examples are illustrative of a wide variety of situations that can be encountered in Wallonia in sufficient volume to justify the establishment of an Urban Development Fund (UDF).

The **Herstal example** is illustrative of a reality experienced in many cities and outlying areas in Wallonia where many buildings, sometimes similar to urban wasteland, have potential for regrading as areas for housing, services or light industrial activities. These areas represent a wide variety of owners and developers, both public and private. Several of these options can often be combined. The regional stakeholder responsible for public housing policy in Wallonia – the Walloon Housing Society (SWL) – is a key partner in this area, with significant resources to promote the development of social housing. It has already shown the EIB its interest in the implementation of the JESSICA mechanism and is also developing partnerships on preferential terms with some private stakeholders: banks and construction firms. Based on the Herstal example we have envisaged a scenario involving development of a UDF allowing the development of eco-districts (Scenario 1).

The **example of the Mons Congress Centre**, which forms part of a more ambitious city project, refers to the urban renewal dynamic familiar to many Walloon cities since the emergence of the structural funds. This often involves highly complex projects which necessitate bringing together sufficient financial resources and technical know-how. Similar projects are underway at Seraing, Liège, Herstal, La Louvière, Charleroi, Tournai, Namur, Verviers and also several towns in the Borinage district. These projects pose the question of partnership more acutely, and particularly the question of the local authorities' ability to get involved, even the question of the support that the inter-municipal association or even the Walloon Region can provide. Based on the Mons example we have envisaged the possibility of a scenario centred on one or more infrastructure projects in an urban environment.

Finally, the **Ecopôle project**, as planned at Charleroi, refers to the policy for development of economic activity zones that also concerns many urban centres. It refers more generally to the broader question of the remediation and rehabilitation of contaminated wasteland in Wallonia: SPAQUE, which has already been mentioned in this report, has made a list of 6000 sites (3500 industrial wasteland sites and 2500 refuse tips) to be rehabilitated in Wallonia. The task is enormous and financially very expensive. A study made in 2003 at the request of SPAQUE estimates that rehabilitation of the 2000 most contaminated sites in Wallonia would need an investment of between 2.5 and 4 billion euros. Moreover, the decontamination and rehabilitation work is being tackled at a very slow pace and would certainly need financial incentives aimed at greater efficiency. We have not envisaged any specific scenario based on the Ecopôle project but have thought of a more ambitious Urban Development Fund option involving not only the projects already mentioned but also the possibility of taking land to be converted into account. The phasing of these projects, flexibility in marketing and the creation of partnerships can be optimized by structuring the funding of this particular approach.

It is thus possible, on the basis of these three typical examples and the associated financial models, to examine three scenarios for the establishment of an Urban Development Fund in Wallonia. We will present each of these scenarios in the pages that follow, analysing the pros and cons of each of them and the role that each stakeholder might play.

9.2. Scenario 1: an Urban Development Fund for eco-districts

The eco-district concept is borrowed from literature which has met with some success in regional development in Europe, notably following the work carried out under the Leipzig Charter. On the model of what has been done at Bekerich (Grand Duchy of Luxembourg), Freiburg (Germany) and South London (UK, Bedzed project), an eco-district is an urban development project centred on a few blocks, aimed at reducing its impact in terms of energy and meeting a number of environmental objectives.

This form of development is currently under discussion in Wallonia and may meet certain priorities announced in the new Walloon Government's regional policy statement. The Pré-Madame project at Herstal can typically fall within the scope of support with such a fund.

In such a context a UDF can be conceived as a means of offering funding (or advance funding) for public and/or public-private projects which have environmentally interesting characteristics but are also of structural importance for the broader development of the city in question.

9.2.1. Target of the UDF

Medium-sized urban projects with a marked social and environmental component (energy performance and/or environmental quality index, social housing, production of renewable energy, urban regeneration, etc.). The fund could refine this list of criteria and check on their *ex ante* application as well as the soundness of the financial plan.

In this first scenario the UDF meets an objective of financial support for the projects put forward. It does not get involved in the running of the project beyond its implementation. As shown by the Herstal example, the management and effective use of the project after implementation are the task of the project developers. The UDF generates a **leverage effect** on part of the funding needed.

In the long run there is potential – not precisely defined but certainly significant – for these projects in Wallonia, where some urban areas have a very high population density and a built environment which is getting old (between 30 and 40% of housing dates from pre-1900). No count has been made of derelict industrial sites and other urban buildings but there are a very large number of these as well.

9.2.2. Value added of this type of UDF

- for the Region, a device which enables it to achieve its medium- and long-term policy objectives via financial support for public, private and/or public-private projects

- for the cities concerned, new investment projects in their area and a financial vehicle which albeit new – as it is not in the form of a direct subsidy – nevertheless places their

projects in a dynamic that is innovative and potentially profitable in the long term. In addition the UDF offers them funding costs that are competitive on the market;

- for the project promoters (public and/or private): the availability of advantageous additional sources of finance which make it possible to carry out projects of a complex nature and make allowance for certain risks (selective access to housing and/or other functionalities of the buildings, risks relating to energy performance and the perpetuality of the technologies envisaged);

- for the banks: the presence of partners cofinancing the projects and distributing the risks among a number of entities;

- for the EIB and CEB: quite apart from the financial interest, guarantees offered by the returns on energy investments inherent in the projects, notably via the mechanism of the green certificates²² which fits in with a sustainable development approach. This argument also applies to the other financial partners of the project but it is useful to draw attention to it in the context of the social and environmental objectives of the two international financial institutions.

9.2.3. Structure of the UDF

Since the Herstal project is financially very important, it seems to us more advisable to base our discussion here on the average amounts the fund will be dealing with. That is why we are taking 20 million Euros as our basis here. In a simplified scheme the financing needs for projects of this type are as follows:

PROJECT		FINANCE	
Costs	€ 20 mill.	private OR	20%
Margin	25%	UDF OR	0%
revenue	€ 25 mill.	Bank loan	40%
		UDF loan	40%

In this case the Urban Development Fund exhibits a relatively simple structure (cf. EQ-1 chart) in which, as part of the additional support needed for the project, in this case 40% of the budget, i.e. 8 million euros are contributed by the UDF to the project:

- the Walloon Region is supporting the project to a level of 50% of this amount, from resources originating from the ERDF and/or funds of its own: for instance in the budget allocated to urban renewal²³ or in an allocation targeted at the energy investments of the municipalities – adapted RUEB type programme, or else via budgets devoted to housing;

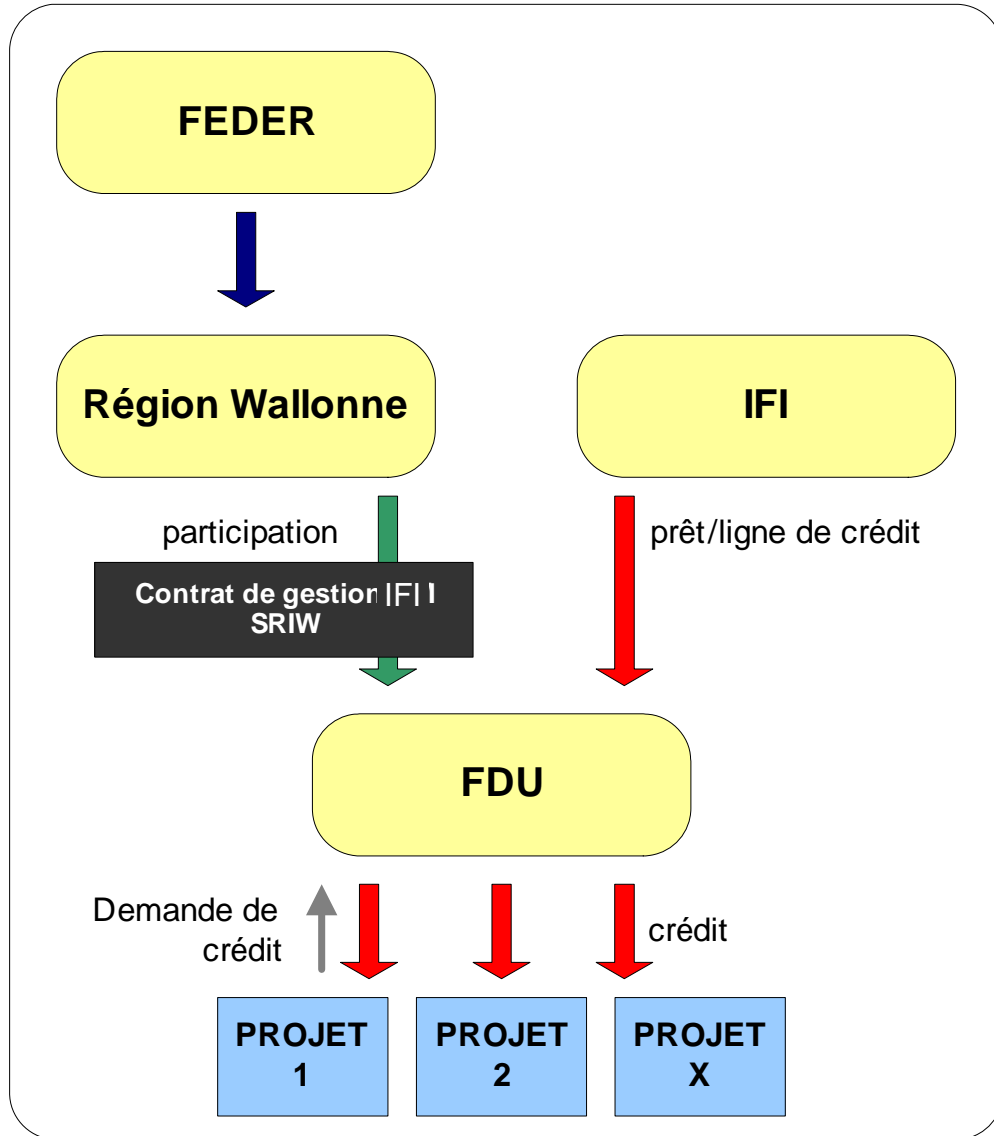
- an international finance institution (IFI) is contributing the remaining 50% via a dedicated credit line and at a competitive interest rate.

²² The Walloon Region has set up the green certificates system to support the production of green electricity. It involves a transferable voucher granted to a green electricity producer certifying that he has produced a specified amount of electricity from renewable energy sources, during a specified period of time. The negotiation of these vouchers with electricity suppliers who are committed to a minimum quota of green electricity makes it possible to make them aware of their responsibilities and at the same time cofinance green energy production. The green certificate has the advantage of offering an additional financial return to green electricity producers and guaranteeing a certain percentage of green electricity production for the whole of Wallonia. Source: www.cwape.be.

²³ Assuming that these types of combinations are made possible.

The whole thing allows the project (which is moreover financed by funds of its own and by a bank loan) to improve its financial performance.

EQ-1 chart: structure of the UDF



Source du schéma : IDEA Consult

9.2.4. Management of the UDF

The UDF management process should be simple, like the fund itself. In the scheme proposed, the UDF would be organized by a management contract concluded between the Walloon Region, through the S.R.I.W. (Wallonia Regional Investment Company) for instance, and the International Financial Institution. From a legal point of view the Walloon Region can assign this type of task to the S.R.I.W. without going through a call for tenders, insofar as by its mandate the "S.R.I.W. is a joint stock company having the tasks of equity participation, acquisition of equity interest or participation in the management of commercial companies, or companies of commercial form, industrial companies, financial companies, real-estate companies or service companies, both in

Belgium and abroad, with the objective of furthering the economic development of the Region"²⁴

In this scheme the S.R.I.W. becomes the manager of the UDF in accordance with a logic that it knows well, since it is widely involved in the management of investment projects through its prime task.

Another possibility would be that the Region subcontracts the management of the fund to a third party, a financial institution for instance, but the value added of this operation is poor.

9.2.5. Financial prospects of the UDF

The financial operation of this fund was tested on the basis of the following hypotheses:

Costs of operation:

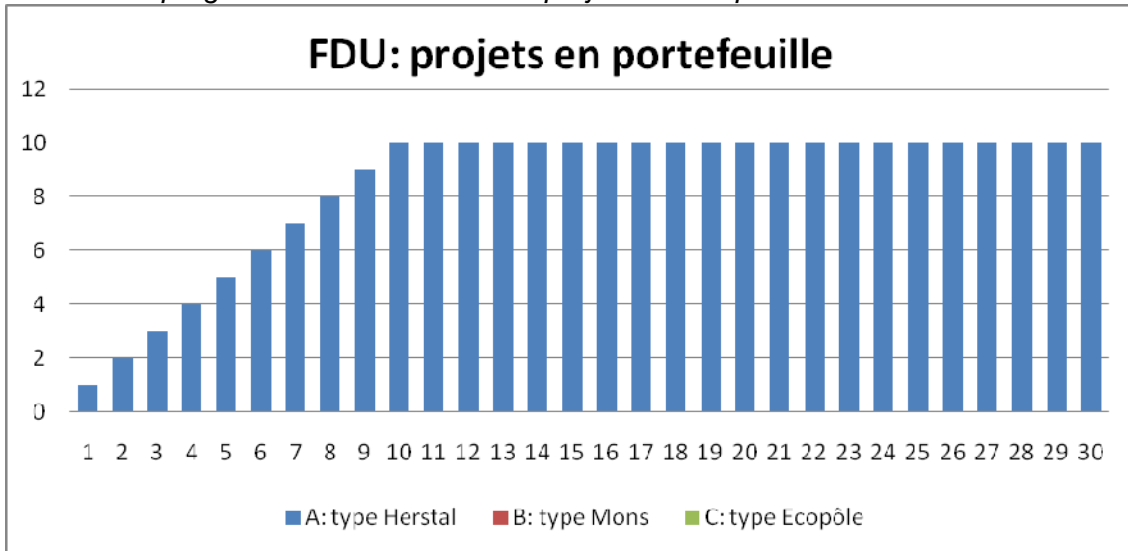
- 1 full-time equivalent with a salary of 100,000 euros/annum, including all expenses;
- 30,000 euros of project study costs for each new project put forward.

Operational conditions:

- a financing structure with 50% from the Walloon Region (funds of its own according to the mix already mentioned above) and 50% via a credit line or a loan from an International Financial Institution at a rate of 3%;
- the acceptance of one new project per annum in the startup phase and two projects per annum in "normal" mode, i.e. a total of 50 to 60 projects that can be financed at the end of a period of 30 years with a maximum of ten projects in the portfolio (cf. EQ-2 chart). This hypothesis envisages a 10-year maximum period of investment in the project, at the end of which the project must be completed and the finance repaid. A shorter settlement period can be envisaged.

²⁴ Article 21, 1^{er} of the Act of 2 April 1962 concerning the Federal Investment Company and the Regional Investment Companies, M.B. [Moniteur Belge] of 18/04/1962, p. 3182. Paras. 2 et seq. lay down that: "in performing its tasks the S.R.I.W. shall take specific measures in priority sectors for the economic development of the Region, namely the traditional sectors and also the growth sectors, leading-edge sectors or sectors oriented towards the development of new technologies, whether applied or not to the traditional sectors, the sectors making use of natural resources. In addition, in all its interventions, the S.R.I.W. shall take care to achieve overall profitability, by application of the rules of good industrial, financial and commercial management.

EQ-2 chart: progression of the number of projects in the portfolio within the UDF



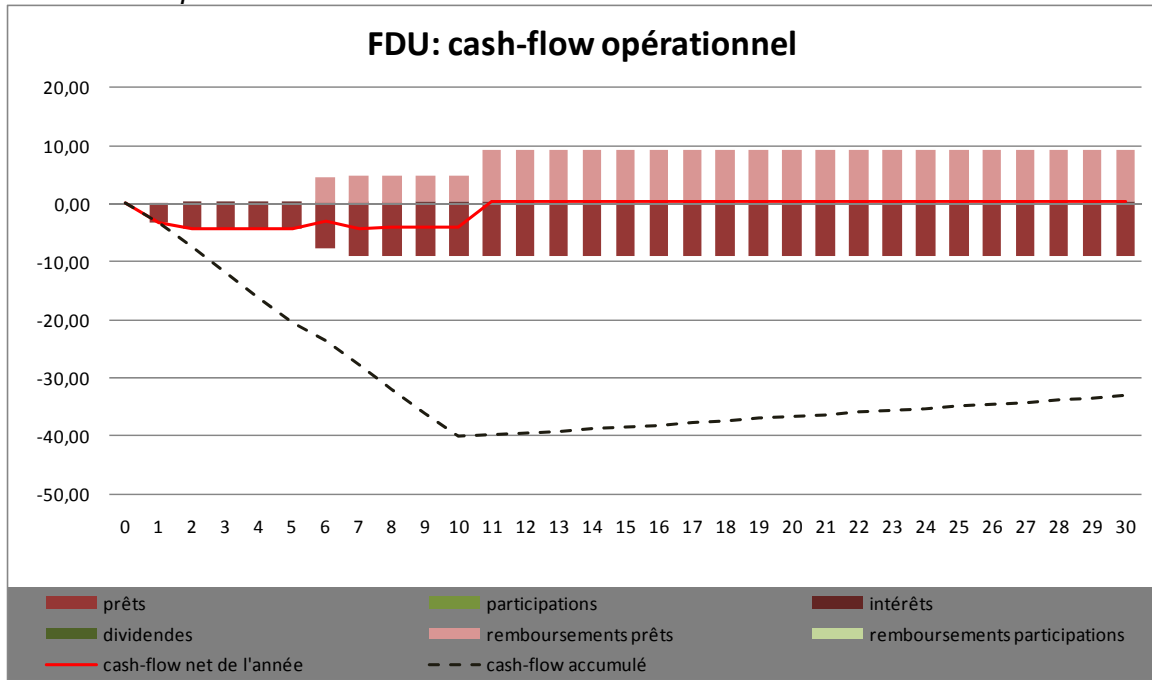
Source du schéma : IDEA Consult

- such a volume of projects therefore implies an approach at regional scale in order to achieve a sufficient threshold in a certain number of cities.

- in this instance, still extrapolating the Herstal example, the need for finance can be estimated at 42 million Euros, equitably divided between the Region and the international financial operator. This starting amount is only raised once.

The operational cash flow of the UDF is negative during the startup and growth of the UDF. After a certain time it is required to stabilize via the repayments of the loan and interest in order to allow circulation of the fund. The EQ-3 chart shows that ten years are needed to achieve a return to a break-even point in terms of net annual cash flow, while the total amount raised also decreases from the tenth year onwards.

EQ-3 chart: operational cash flow of the UDF



Source du schéma : IDEA Consult

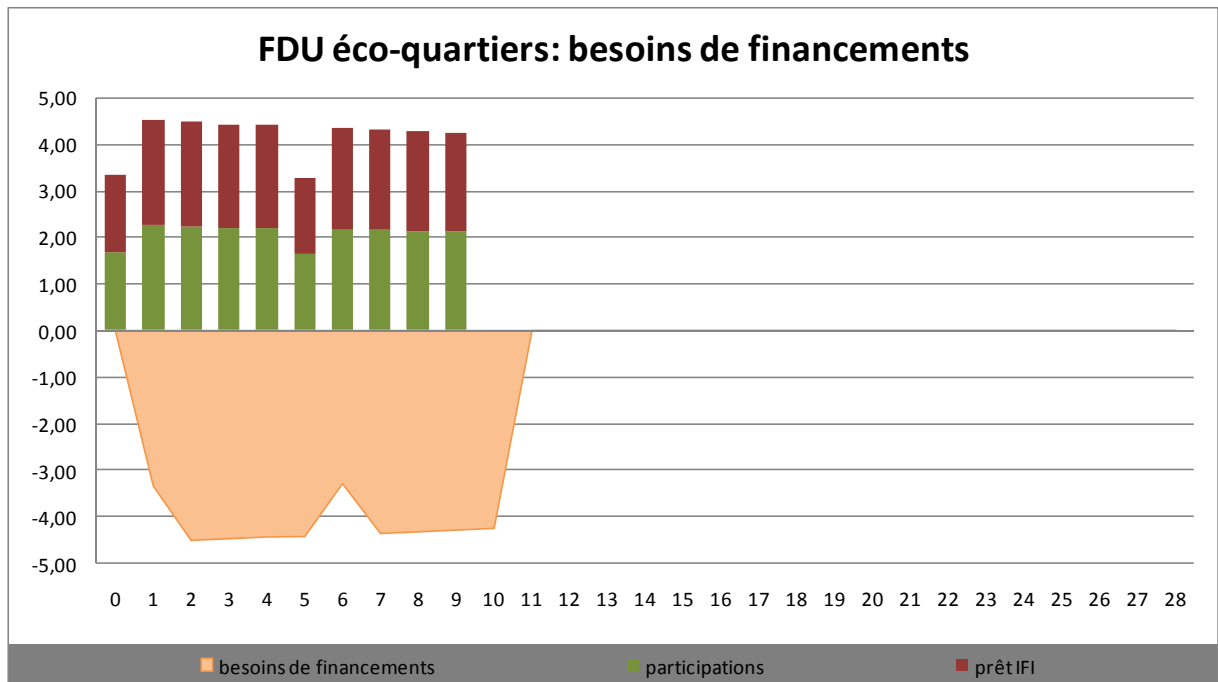
It should be stressed that this is the cash flow of the DF, not that of the project financed, which has its own life cycle.

The financing needs of this fund are 42 million over a period of +/-10 years. After 10 years, as we have indicated, this fund must be refinanced and becomes permanent.

This financing is shared between 21 million euros invested by the Walloon Region and 21 million invested by an IFI. Based on a hypothesis of 30 years, in the most linear scheme, there is thus a total investment volume of more than 400 million euros which can be invested in projects over a period of 30 years, with the aim of supporting projects for a total that is 2.5 times greater, i.e. a billion euros. The potential leverage effect thus involves 33 million euros of investment per annum.

In the chart below, the part below the abscissa shows the financing needs, recovered in ten years, while the part above indicates the amount invested annually by each partner.

EQ-4 chart: financing needs of the UDF



Source du schéma : IDEA Consult

9.2.6. Conclusion on this type of UDF

The chart which follows summarizes the structure and cash flows of the eco-district UDF.

In the present context of the Walloon Region this type of UDF, whatever name it is given, has the merit of being similar to tools that the Region has already put in place via the Regional Investment Company and some of its subsidiaries.

One example that can be given is IMMOCITA: a subsidiary of the SRIW, the joint stock company IMMOCITA has the principal objective of promoting housing, especially medium-level housing, and intends to contribute to the efforts made for urban renewal in Wallonia. It usually plays a minority role in the financing of projects which have been initiated by itself or by the private sector – essentially the construction and real-estate development sectors – and for which a partnership is always set up. In 2008 the assets managed by IMMOCITA amount to 45 million euros. This company has legal and financial expertise in the development of major projects in partnerships with private investors.

The mechanism of operation is fairly similar in the case of the UDF envisaged here, but the aims of the instrument are quite different, since town-planning, social and environmental objectives are pursued and sources of finance outside Wallonia can be raised.

The model also has the merit of being fairly simple and easily transferable, even if its implementation requires measures to raise awareness and explain it to target audiences. Ideally it should be set up by involving some key stakeholders affected by the eco-districts approach:

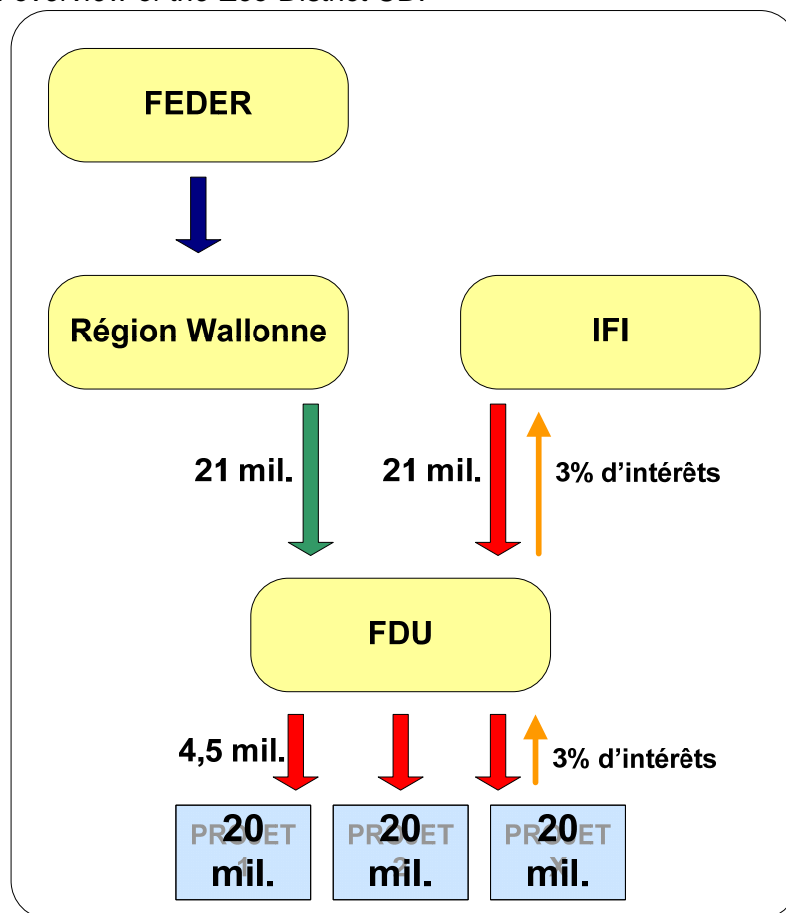
- the Walloon Housing Society;

- the department for territorial development, housing, heritage and energy in the Wallonia Public Service (urban renewal sector and energy sector);
- the Union of Cities and Municipalities in Wallonia.

It should also be pointed out that the eco-districts were taken as an example mainly because there are real opportunities in Wallonia and a favourable political context for initiatives of this type. But also because, through mechanisms such as the green certificates and other intelligent investments, the projects supported can be planned with a view to faster returns on investment, so as to appeal to the private sector.

Other subjects, such as social housing or also urban wasteland to be converted to service or office areas, could also be targeted by this type of UDF.

EQ-5 chart: overview of the Eco-District UDF



Source du schéma : IDEA Consult

The main handicap of this UDF structure is the "housing" component, which *a priori* is not eligible for ERDF aid, except for energy investments.

A flexible mechanism where the ERDF part of the instrument is devoted specifically to this type of investment and/or to a non-housing part of the project is possible, however.

Outside the ERDF, a move towards this type of mechanism is not inconceivable in Wallonia, by combining several lines of finance for which the operational conditions would then have to be revised. We are thinking mainly of:

- the investments granted annually by the Walloon Housing Society (SWL) and its local branches in the construction and renewal of social and medium-level housing;
- the aid for the introduction of measures in support of municipalities, provinces, CPAS and non-commercial organizations that want to reduce the energy consumption of buildings that they own;
- use of the green certificates mechanism in investment schemes;
- instruments for urban renewal and revitalization.

9.3. Scenario 2: an Urban Development Fund – Structural Project

In spite of the very limited financial resources available to the Walloon cities, they have to deal with large-scale construction projects, like the urban regeneration projects in the city of Mons. Among the axes devoted to regional development in the two operational programmes providing the framework for ERDF aid in Wallonia, one can highlight:

- the development of the TGV station district in Liège;
- the innovative development of the urban cultural appeal of Liège;
- the renewal of the city centre of La Louvière;
- the Phénix project (Charleroi downtown area);
- the project for renewal of the Tournai city centre;
- (...)

There are thus many examples of ambitious and fairly complex urban projects, which can also be found in cities such as Seraing, Namur or Verviers.

In such a context a UDF can be conceived with the aim of supporting projects set up on a public-private partnership basis involving the Region, the cities concerned, international financial institutions and private partners. In this particular case the UDF will be more involved in the projects, its role also being to check on the relevance and objectives of the project *ex ante* and to set up an efficient management and progress monitoring system.

9.3.1. Target of the UDF

Urban projects of complex structure which provide stimuli for development: a football stadium, cultural complex, conference centre, concert hall, city-centre urban development project.

There are a number of opportunities of this nature in the medium term in Wallonia, such as the application by the city of Mons to be given the title of European Capital of Culture (in 2015), Belgium's application to organize the World Cup in 2018 or 2022, and the plans for construction of two football stadiums at Charleroi and Liège. Ultimately it is not impossible that a project may emerge for construction of a new parliament building at Namur.

To be effective and structural, this fund ought to be centred upon a limited number of urban areas, by setting a population size criterion for instance (population > 60,000) and/or an agglomeration criterion, such as the one applied by the Federal Policy for the Big Cities (see Chapter 1).

We develop two alternatives in this scenario: a UDF centred on one project – based on the example of Mons – and a UDF combining several of these projects.

9.3.2. Value added of this type of UDF

- for the Walloon Region, the important thing is to achieve radical evolution of the policy for support of urban renewal, firstly by targeting a more limited number of cities and supporting projects that are of greater structural significance for regional socio-economic development, and secondly by involving private partners in an approach that is innovative – for the region – based on large-scale public-private partnerships. These two trends will provide incentives for better use of the available funds and, potentially, for more successful projects in which the Region is involved at local level.
- for the cities concerned: the presence of effective partners who can assist them in the management of complex projects (logistic support, real-estate expertise), and an approach to projects based on long-term profitability.
- for the public and/or private promoters, access to a potentially bigger and more attractive portfolio of projects, as well as a safeguard provided by the structure of the proposed partner.

9.3.3. Structure of the UDF

Based on the Mons example, in a simplified scheme, the financing needs of the project are as follows:

PROJECT		FINANCE	
Costs	€ 90 mill.	private OR	10%
Margin	25%	UDF OR	10%
revenue	€ 112,5 mill.	Bank loan	40%
		UDF Loan	40%

In this case the UDF would provide 50% of the finance, viz. 10% via an equity stake in the capital resources of an SEM [semi-public company] and 40% in the loan capital. Depending on the nature of the project (composition and phasing), the amounts involved will be between 30 and 40 million euros.

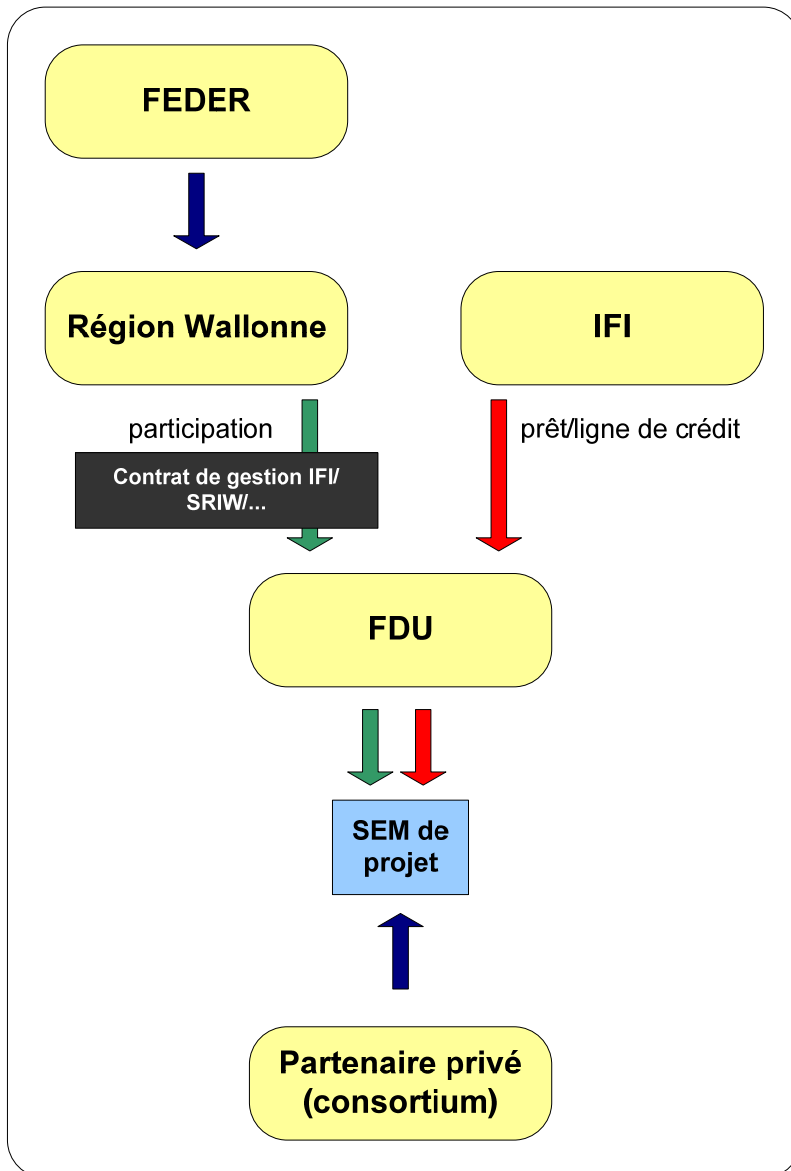
Compared with the preceding scenario (eco-district), from which it takes the basic elements, this project includes an additional element of complexity since it aims to associate one or more private partners – through a consortium – with the project dynamic launched.

As the chart shows, the involvement of the private partner in this case includes the creation, for each project, of a project vehicle which can take the form of a semi-public company, a substantial part of the capital being held as a majority interest (in the case which concerns us) by one or more public persons. In the vocabulary of public-private partnerships, so-called DBFM (*Design, build, finance and manage*) contracts can also be envisaged (cf. below, Management of the UDF).

Like the first scenario, the Urban Development Fund can be replenished by resources from the ERDF and equity capital (derived here also from the budget allocated to

urban renewal²⁵). An international financial institution (IFI) would make its contribution in parallel via a dedicated credit line.

PS - 1 chart: structure of the UDF



9.3.4. Management of the UDF

This type of UDF must have a more solid management structure since the Region has equity stakes in the project supported. It must remain light-weight, however, in view of the number of projects potentially involved. Here too it may be considered that the SRIW is a good candidate for management of the fund, having the necessary resources to deal with the small number of projects involved.

Sur un plan décisionnel, le Fonds serait dirigé par un Conseil d'administration très restreint qui réunirait annuellement une assemblée générale annuelle des actionnaires.

²⁵ Assuming that these types of combinations are made possible.

From the point of view of decision-making, the Fund would be managed by a very restricted Executive Board, with an annual general meeting of shareholders.

Its composition would comprise an odd and limited number of members so as to guarantee effective debates and limited management costs. One example of the composition of this EB could be as follows:

- 2 representatives of the principal shareholder – SRIW, including a representative of the Walloon Government, the majority shareholder in SRIW;
- 2 independent economic or financial experts;
- 1 expert on urban development.

One or two meetings of the EB per annum should be sufficient to make decisions on the projects to be dealt with.

If a UDF centred on more than one project is envisaged it may be advisable to bring the Union of Cities and Municipalities in Wallonia into the Executive Board.

The UDF and the rules of operation will in addition comply with the criteria laid down by Belgium with regard to corporate governance.

In the context of this UDF it does not seem very relevant to envisage any outsourcing of the operational management, in view of the small number of projects potentially involved. Even in Option 2, details of which are given below, the number of projects to be managed annually will remain small.

Compared with the first scenario, it should be pointed out that the process for selection of the semi-public company will have to involve an open invitation to tender, organized by the UDF and specifically related to the project identified.

The local authorities and the private sector will also be mainly active in setting up the semi-public company responsible for project development, as operators with practical experience for the project put forward.

9.3.5. Financial prospects of the UDF

The financial operation of this fund was tested on the basis of the following hypotheses:

Costs of operation:

This fund would involve the employment of two full-time equivalents at an estimated cost of 100,000 euros per annum during the first five years of the project.

An amount of 150,000 euros of project study costs for preparation of the project and outside consultancy fees would also be needed.

Operational conditions:

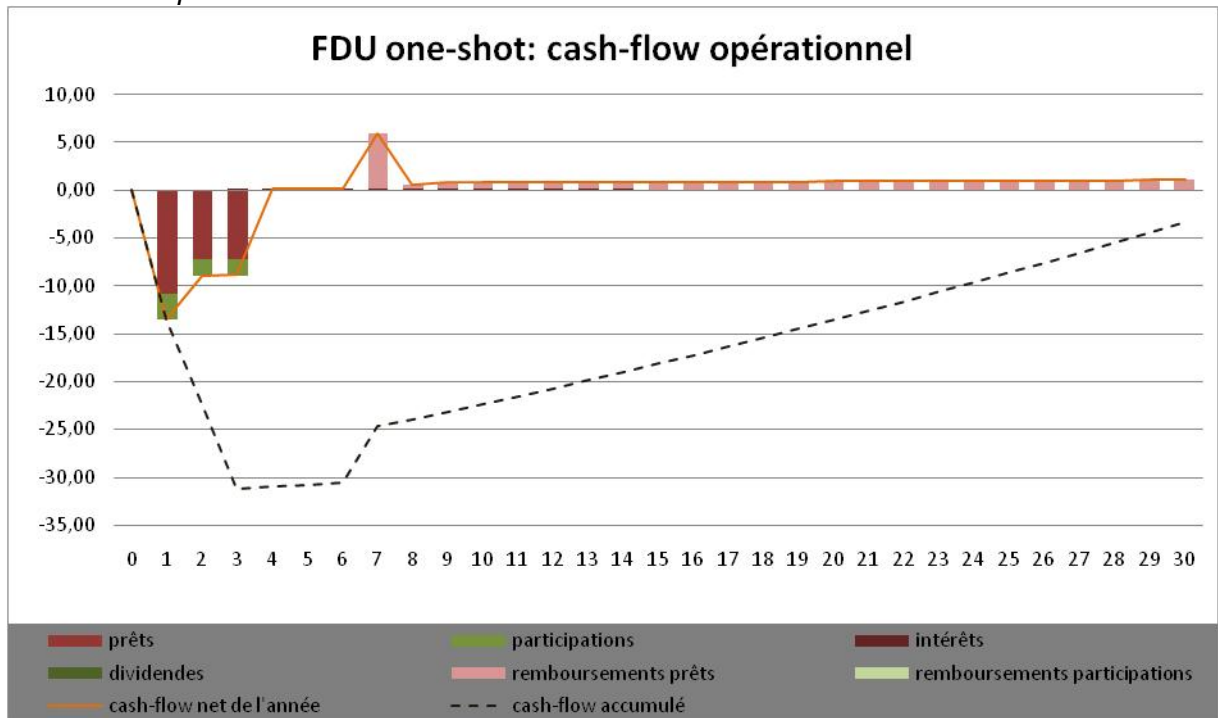
In terms of financing, the structure of the UDF proper is no different from that presented in Scenario 1, viz. a financing structure with 50% from the Walloon Region and 50% via a credit line or a loan from an International Financial Institution at a rate of 3%.

- The UDF would be focused on a single major project, the operation of which would extend over a period of 30 years but for which fast returns would be ensured by the commercial exploitation of certain aspects.

- In such a hypothesis the operational cash flow is negative during the startup and growth of the UDF. It stabilizes after a certain period of time. The unique nature of the project means that if it is not invested in new projects the accumulated cash flow takes about thirty years to be absorbed, via the annual repayment of interest (cf. PS-3 chart).

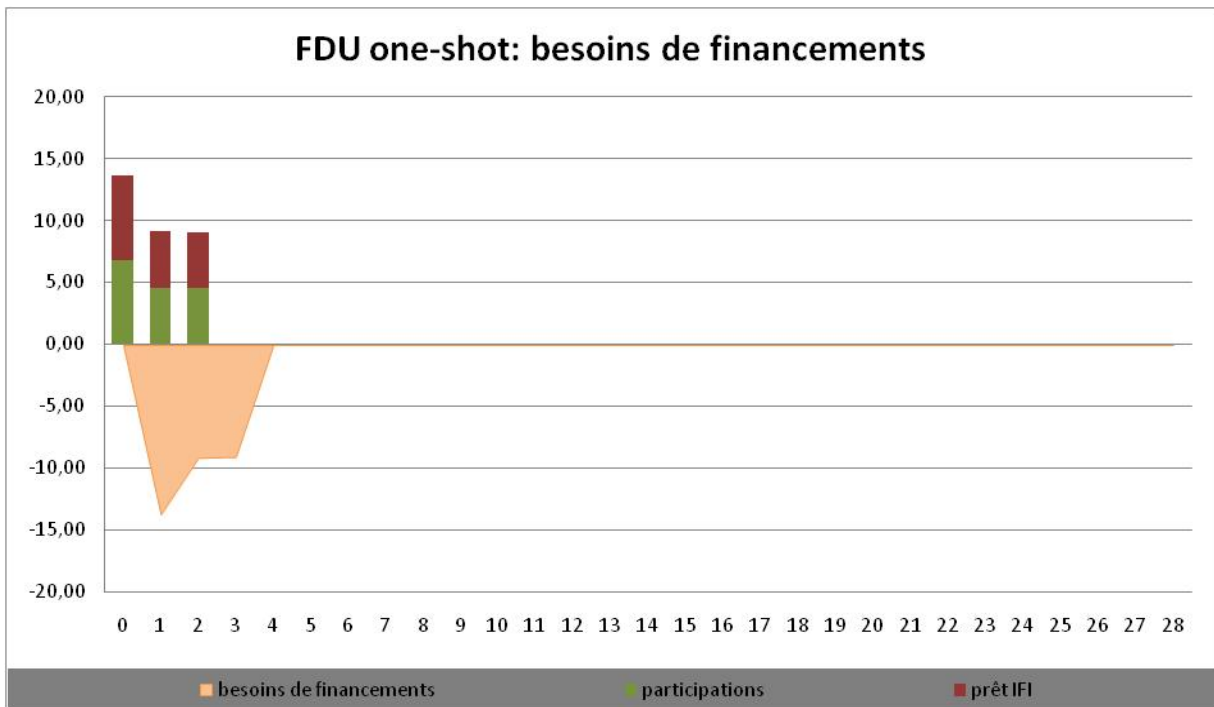
Once again it should be pointed out that this is the cash flow of the UDF. The makeup of the project must allow this UDF centred on a single project to remain in existence – which also justifies the rules envisaged for management of the fund and the need for the UDF to be more closely involved in the project.

PS-2 chart: operational cash flow of the UDF



- the financing needs of this fund are about 32 million, with a Walloon share of 50% and the balance coming from the IFI. This amount is for a period of 4 to 5 years. After three to four years it must be possible to recover a major part of this investment by rapidly accessible profits (quick-wins), e.g. by the sale of a commercial part of the project. This amount is only raised once.

PS-3 chart: financing needs of the UDF

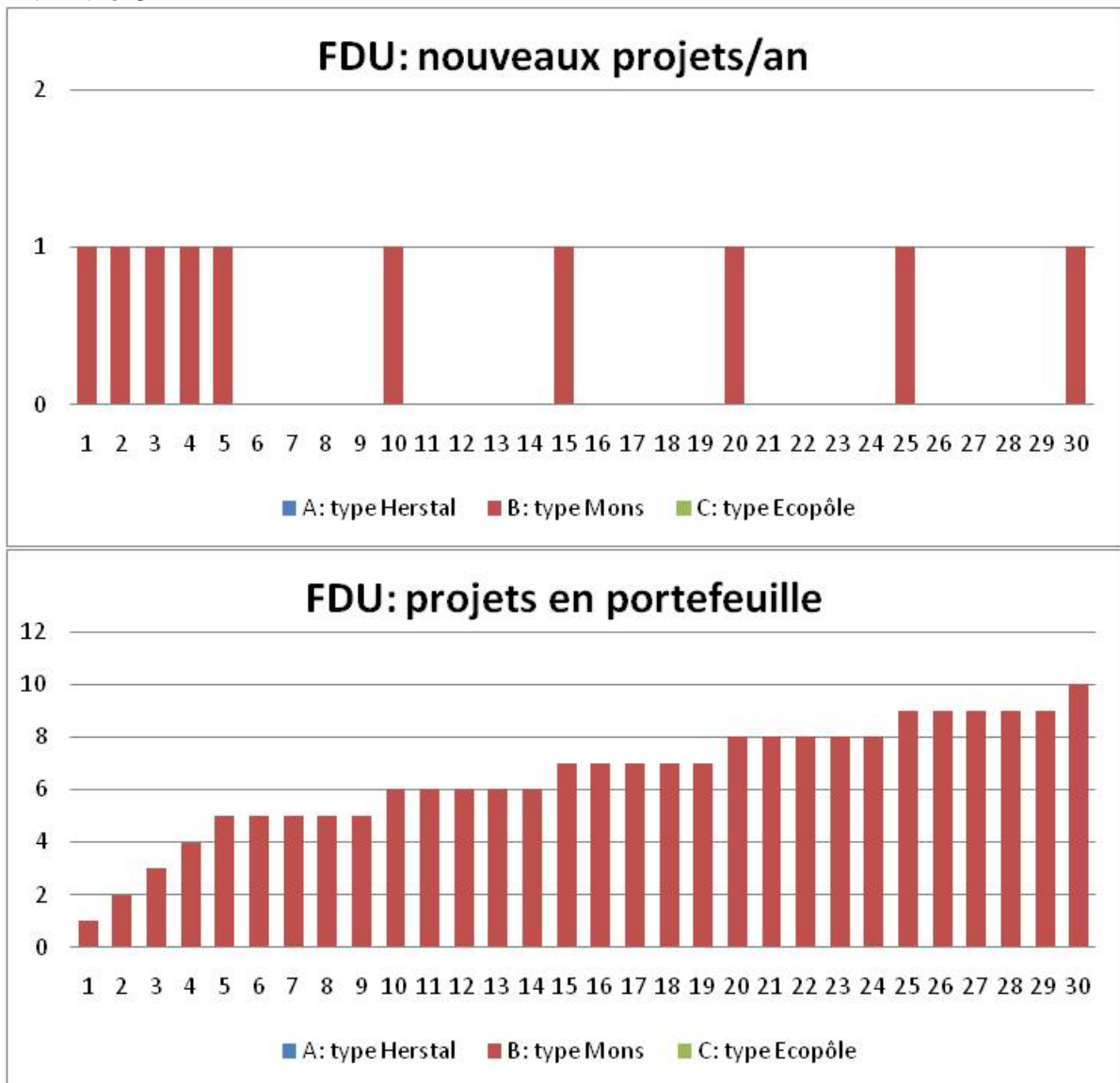


This option does not seem very attractive, however, if it is focused on a single project. The leverage effect only relates to a single project and the final investment supported in the end is limited.

That is why we have also envisaged setting up a comparable UDF, but with the possibility of supporting more than one project. This UDF must then be organized on a regional scale.

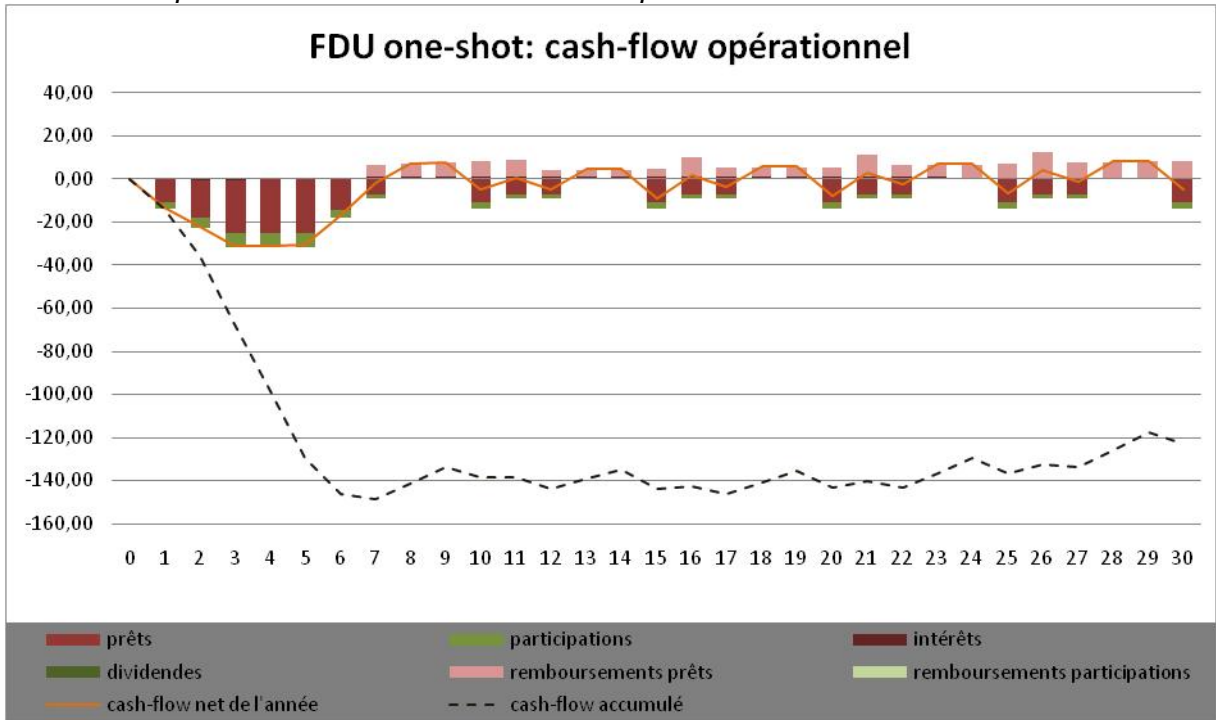
In this option the UDF no longer manages just one big project but more than one, as shown by the chart below, with the aim of supporting a total of ten projects over a period of thirty years, at the end of which the UDF can envisage disengaging from the project:

PS-4 charts: progression of the number of projects in the portfolio and per annum within the UDF



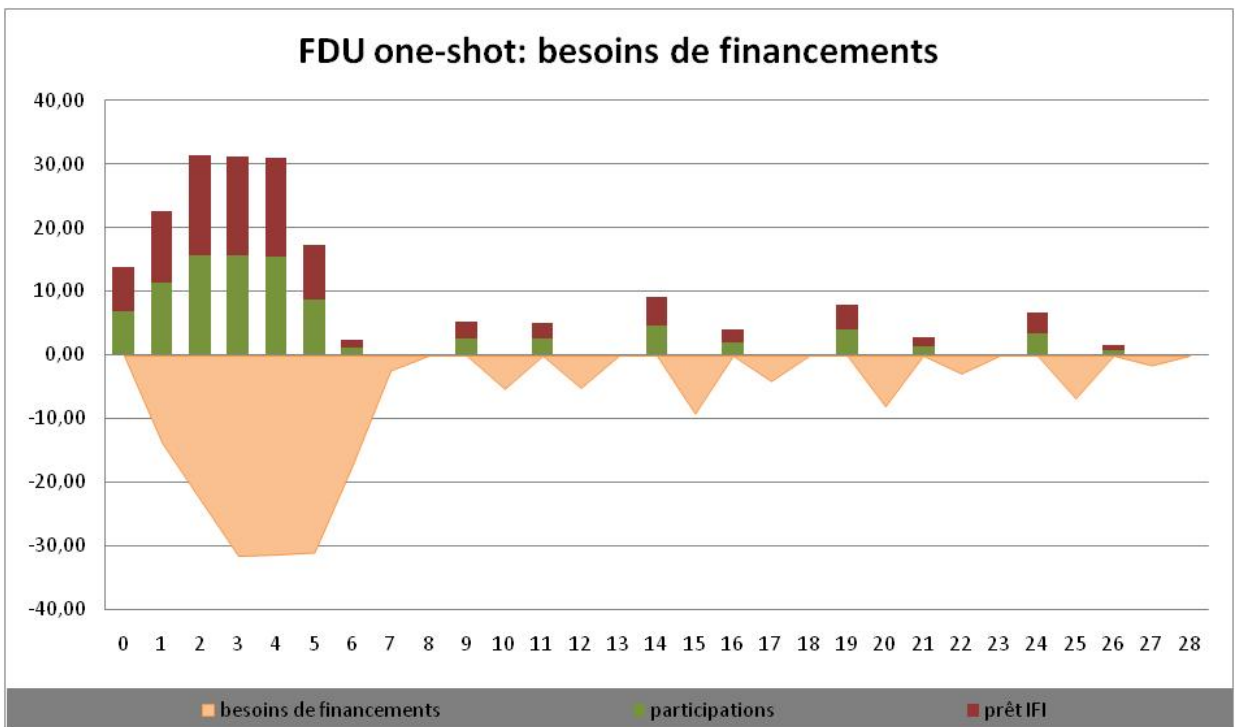
In this hypothesis the operational cash flow of the UDF becomes a multiple of the preceding example, as shown by the PS-5 chart.

PS-5 chart: operational cash flow of the UDF – Option 2



Although the new projects always require additional financing, there is also systematically a limited degree of self-financing, which is obtained by disposal of commercial parts of the projects.

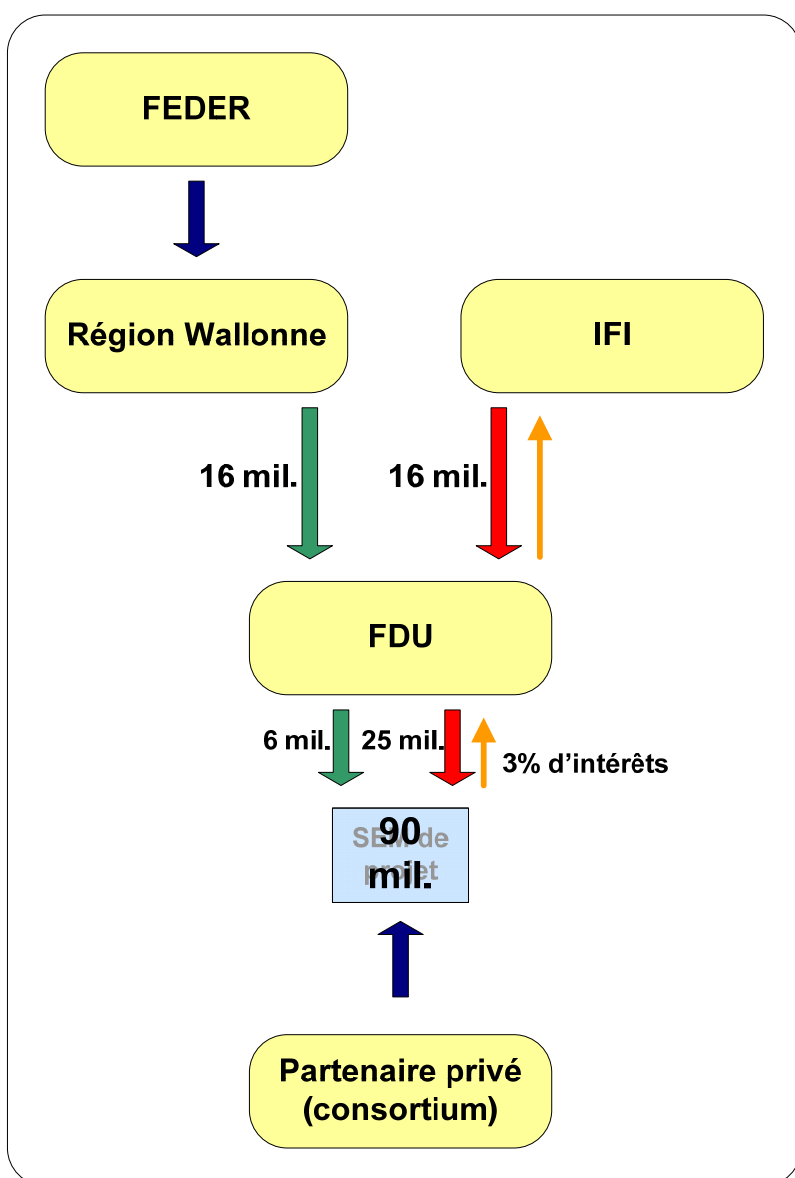
In the hypotheses followed above (10 projects totalling 90 million started over a period of 30 years) the UDF needs +/-197 million euros of finance. With these 197 million, investments can be supported at a level of 297 million euros, notably through self-financing mechanisms.



9.3.6. Conclusions on this type of UDF

The chart which follows summarizes the operation of the UDF – Structural project in the first option developed, centred on a single project.

This is, a priori, a more innovative approach in the Walloon context, even if recent initiatives demonstrate that approaches of this type are beginning to emerge, such as the establishment of a crossroads bank for urban redevelopment²⁶ or the steps taken by the Walloon Housing Society to get involved, in February 2009, in the process for setting up two distinct semi-public companies (SEM), each of which has the task of creating a minimum of 600 homes over a period of 7 years: homes which can provide an example of sustainable housing, adapted to local demand and serving a variety of functions and populations.



²⁶ <http://www.requalification.be/index.htm>

The value added of such a fund must be considered in relation to the following elements:

- the UDF relates to projects whose scale may initially frighten public and private investors, and which, with support from the UDF, are given credibility in their aims;
- these projects can genuinely play a structural role in the socioeconomic development of a conurbation;
- the UDF makes it easier to involve private players and the local partners in major projects with high risks and a high degree of complexity;
- the UDF allows effective management mechanisms to be put in place which guarantee the long-term performance and profitability of the projects financed;
- the UDF is adapted to projects such as those put forward in the two operational programmes governing the ERDF in the Walloon Region, but makes it necessary for these projects to be reconsidered with a view to obtaining short-term revenue: this option can only be envisaged if the projects already selected have difficulty in meeting their deadline constraints.

The management mechanisms to be adopted and the more limited returns on investment nevertheless make this UDF approach a relatively complex option if it is considered in isolation. This type of UDF would make sense if the number of flagship projects proliferated in the next ten years in Wallonia and/or if it was combined with other types of finance that were more profitable in the short term.

9.4. Scenario 3: an integrated regional Urban Development Fund

In this scenario it is assumed that Wallonia decides to invest resolutely in the Jessica instrument and envisages the financing of several types of projects as part of a number of sectoral policies which together form an integrated urban policy at the scale of the Region.

The UDF envisaged is therefore supposed to be ambitious and a source of stimuli for development, applying integrated and sustainable urban development criteria across the board, which meet the criteria of the Leipzig Charter for instance, through high-quality plans.

If these criteria are met, it can also envisage access mechanisms that arouse the interest of the cities which are most innovative and put forward the most promising plans: preferential interest rate, additional financing mechanisms, investments of an associative nature or intended to support diversity and social cohesion (the establishment of district associations for example²⁷).

9.4.1. Target of the UDF

All types of urban projects, preferably generating revenue and compatible with a philosophy of economic, social, cultural or environmental viability – which also presupposes, as stated above, that an integrated and sustainable policy for cities is developed in the region.

This UDF can obviously include the projects envisaged in Scenarios 1 and 2. Based on the example developed in connection with the Ecopôle, it can also support a policy for development of urban and out-of-town wasteland sites, i.e. a significant percentage of the wasteland sites in Wallonia.

Other types of projects can be envisaged by means of a feasibility analysis and expression of interest by the public partners concerned. We are thinking in particular of infrastructure and transport projects.

9.4.2. Value added of this type of UDF

This UDF combines many of the advantages of the two preceding schemes but adds a not inconsiderable dimension in terms of financial flexibility and distribution of risks among several types of commitment structures and, within these structures, several projects or project portfolios.

²⁷ The district association for urban renewal has four tasks, with the aim of preparing the district plan with the local population by:

1. providing preliminary training for trainees living in the district by involving them in activities that form part of the physical, social, cultural and recreational functions which are considered useful for the redeployment of the district.
2. encouraging continuing education by involving local residents in the development of the project, and by making local residents aware of the urban renewal operation.
3. providing information to local residents with regard to involvement in the district plan and the conditions for obtaining the various grants for renewal of buildings, and also making the local population aware of the need to respect important buildings and monuments, the social and cultural heritage, and the real-life experiences associated with the district.
4. providing guidance for projects developed by the local population and helping in the necessary procedures.

This portfolio approach, which is currently being tried within the framework of the ERDF – but in a system of direct subsidies without any mechanism for circulation of funds – necessitates working at the scale of the entire Region, which is also a not inconsiderable advantage as it makes it possible to offer public and private financial partners wider prospects and a greater number of stakeholders in terms of sharing risks.

Its main disadvantage is undoubtedly connected with the level of the investments needed and the management structures and conditions of operation which will have to be established in order to deal with the number, diversity and complexity of the projects.

To sum up, the advantages of this UDF structure are:

- for the Region: a unique, ambitious, integrated tool which allows greater flexibility and is attractive to co-investors, with the possibility of long-term political programming if necessary;
- for public and private promoters: solid territorial, financial and strategic prospects, sharing of the risk among more than one stakeholder and more than one project; irreproachable and responsible management;
- for the cities: several financial vehicles through which an ambitious city project can be implemented, expert technical and financial assistance, involvement of private stakeholders in the development of their local area.

9.4.3. Structure of the UDF

It will be recalled that the working hypothesis extrapolated from the Ecopôle example proposed the following financial breakdown for the unsubsidized part of the project:

PROJECT		FINANCE	
Costs	€ 30 mill.	private OR	10%
Margin	10%	UDF OR	10%
revenue	€ 33 mill.	Bank loan	40%
		UDF Loan	40%

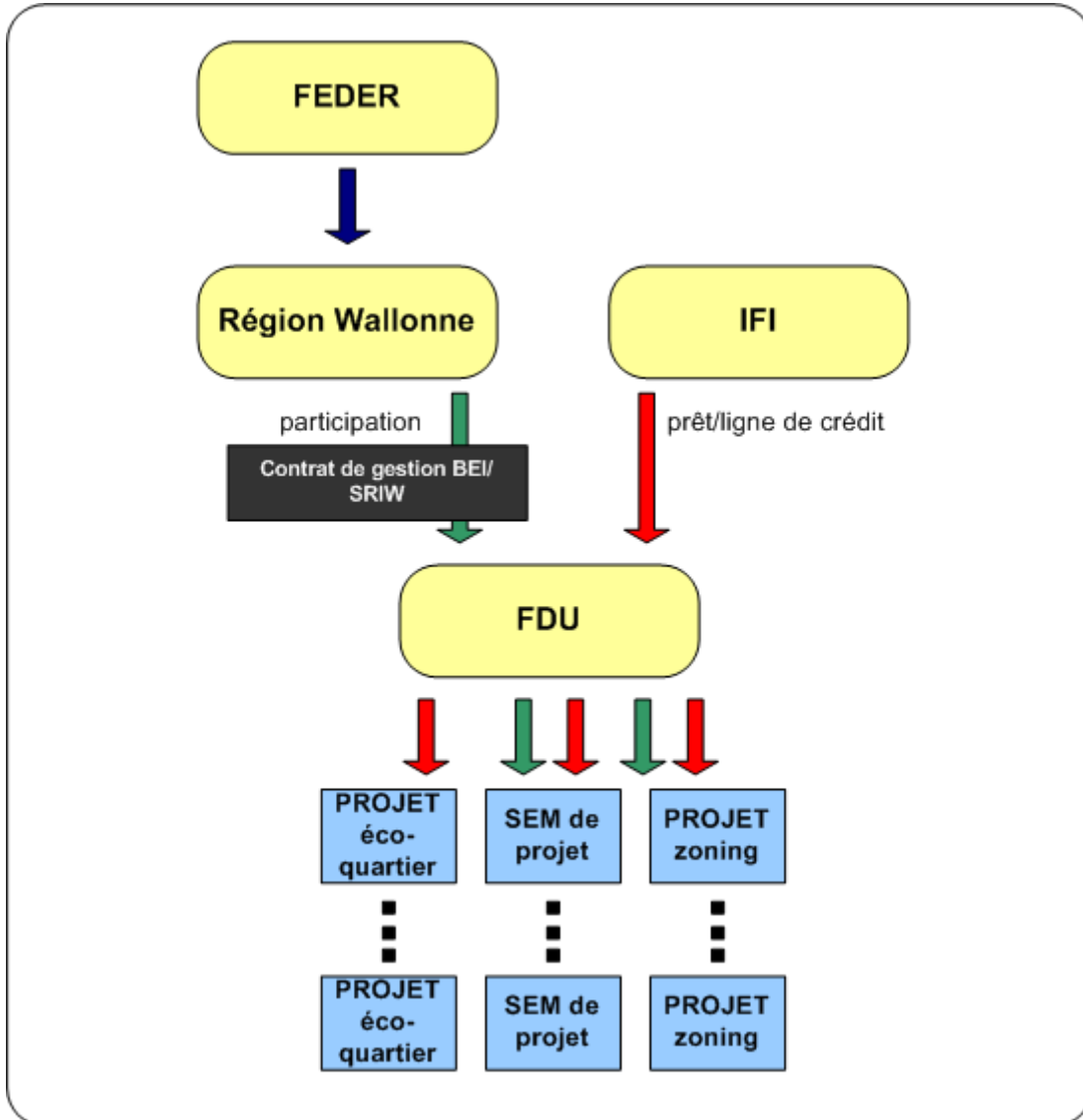
The amount needed for development of this type of project is thus almost 30 million euros, 50% of which could be financed by a UDF if the same approach is followed as in the first two scenarios, and in particular the 10/40 allotment of Scenario No. 2.

As shown in the chart below, the structure proposed is made up of two levels, as for Scenario 2:

1. a first level in which once again the Walloon Region and an international financial institution combine to finance an integrated cornerstone UDF. The scheme proposed is similar to the one followed for Scenario 2;
2. a second level made up of the portfolio of projects which will be financed by the UDF. These projects may be very different in nature and belong to several categories: eco-districts, housing projects, major structural project, commercial part of the zoning development. The mobilization of the funds from the ERDF may depend on the specific objectives of each project.

It must be stressed that the structure of this fund may be hybrid in form: depending on the needs and risks, the UDF will perhaps be required to set up "subfunds". In this sense the UDF will evolve more towards the status of a Holding Fund which itself finances several thematic UDFs. This is an option which has been proposed in Flanders and is also being followed in other European Union member states.

Int - 1 chart: structure of the UDF



9.3.4. Management of the UDF

This type of UDF must have a more solid management structure. Here too it may be considered that the SRIW is a good candidate for management of the fund, even if the nature and scale of the tasks to be performed is much more complex than in the preceding schemes. Recruitment should therefore be carried out with full knowledge of the facts.

From the point of view of decision-making, the Fund would be managed by an Executive Board, with an annual general meeting of shareholders. Its composition would comprise an odd and relatively limited number of members so as to guarantee

effective debates and limited management costs. One example of the composition of this EB could be as follows:

- 2 representatives of the principal shareholder – SRIW;
- 2 representatives of the Walloon Government;
- 2 independent economic or financial experts;
- 1 expert on urban development.

The UDF and the rules of operation will in addition comply with the criteria laid down by Belgium with regard to corporate governance.

Insofar as this UDF will have to rule regularly on the projects put forward, and thus regularly make decisions, the EB may contemplate delegating part of its decision-making powers to an executive director appointed to manage the fund.

In this particular scheme, subcontracting the operational management of the fund to a third party, even to the EIB, may be an interesting alternative, with the following advantages:

- a critical and impartial look at the general equilibrium of the project portfolio;
- a detached stance in relation to the Walloon context and the lobbying that might be exerted by the project developers concerned;
- acknowledged expertise in the management of this type of instrument;
- perceived as neutral and impartial by financial partners;
- a genuine partnership with the international partners;
- the security of an IFI such as the EIB or CEB, as the case may be.

9.3.5. Financial prospects of the UDF

The financial operation of this fund was tested on the basis of the following hypotheses:

Costs of operation:

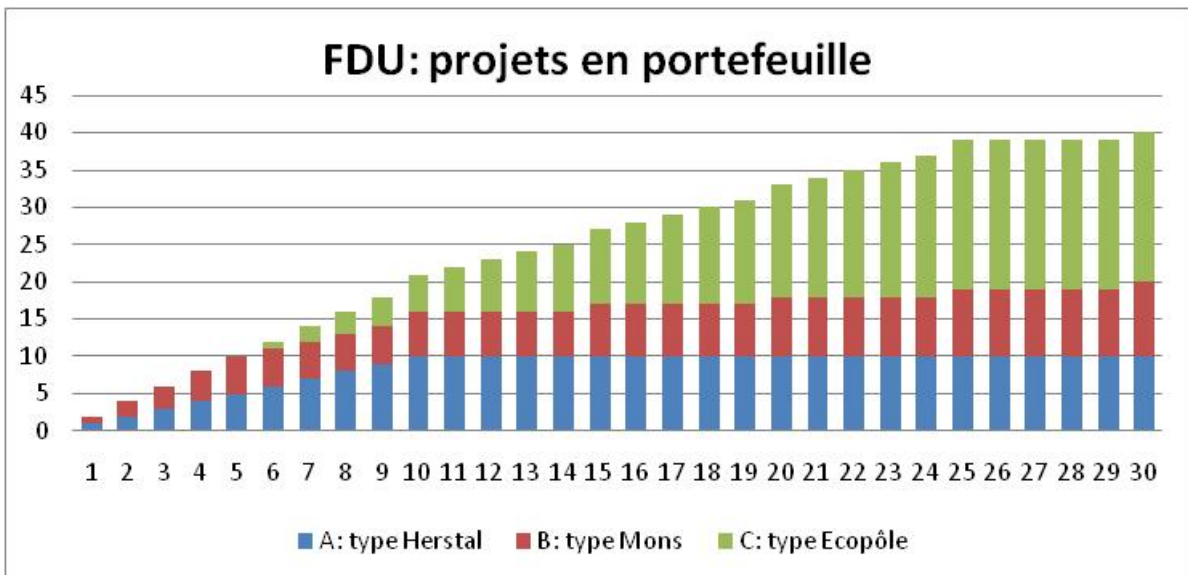
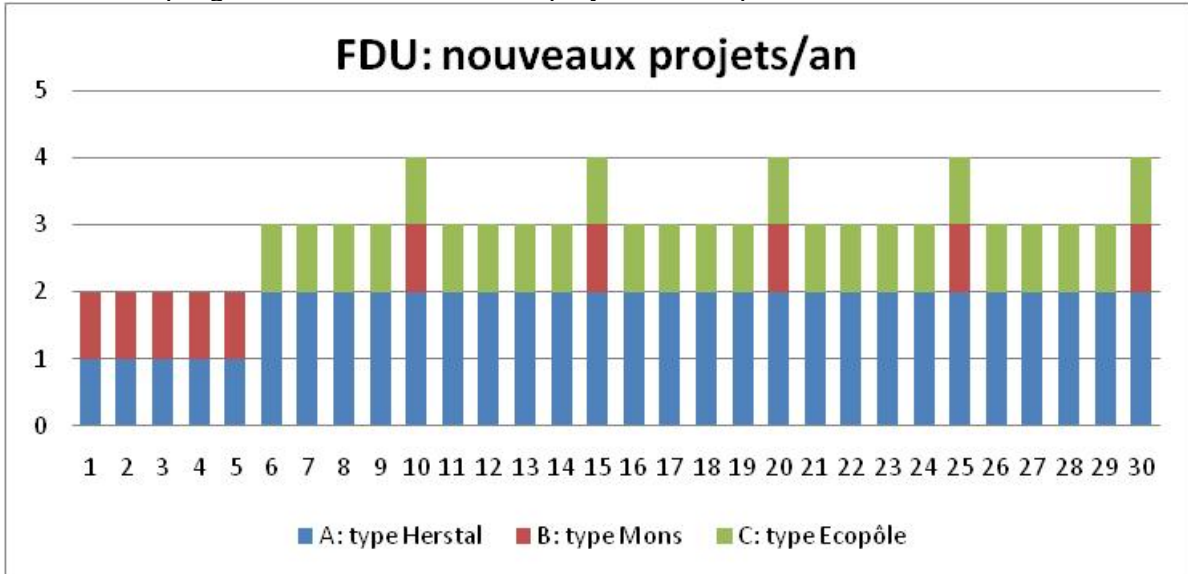
- 2 full-time workers at 100,000 euros/annum
- 50,000 euros of project study costs for each new project

Operational conditions:

- a similar financing structure to the preceding scenarios, with 50% from the Walloon Region (own resources) and 50% from an IFI (loan/credit line);
- in terms of the number of operations, several project flows are conceivable. Below is an example based on a succinct and particularly circumspect market analysis which can be made for the three types of projects envisaged on the basis of the case studies. The hypotheses developed in Scenario 1 (in this case with figures revised downwards) and in Scenario 2 are joined after a few years by the adoption of one project per annum centred on the rehabilitation of a wasteland site located in an urban area or in an economic activity zone. This hypothesis is plausible in view of the number of potential projects on the Walloon scale. It has the advantage that it can associate new stakeholders with the dynamic of the UDF, viz. SPAQUe (cf. *supra*) and Sowafinal²⁸, institutions which have been appointed to carry out the policy for rehabilitation of wasteland sites in Wallonia.

²⁸ In addition to the Region's traditional budget, the Walloon Government decided to organize alternative finance with a view to speeding up the rehabilitation of derelict sites of economic activity, whether

Int-2 charts: progression of the number of projects in the portfolio within the UDF

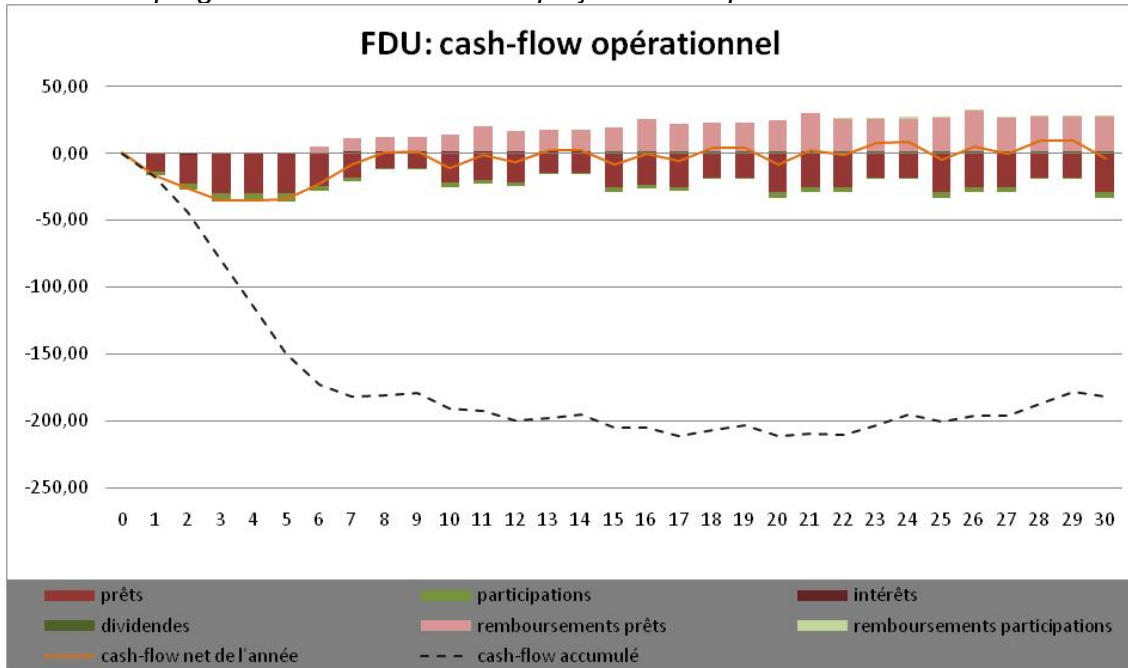


The total number of projects in the portfolio within the UDF can thus reach 40 in the period of maximum operation. After 30 years almost a hundred projects may have been supported by this integrated UDF. Obviously the potential of this type of instrument is quickly seen in the context of an integrated urban development policy.

The operational cash flow of the UDF will reflect the volume of projects handled and turn out to be particularly dynamic, as shown by the chart below:

contaminated or not, and also the establishment of priority economic activity zones and port zones. This financing mechanism is provided by a specialized subsidiary set up by the S.R.I.W. in November 2005: SOWAFINAL (Walloon Company for the Management of Alternative Finance). After a restricted call for tenders, organized by RW, DEXIA Banque was selected to set up, through the intermediary of SOWAFINAL, a borrowing programme of almost 639 million euros to finance the work in question.

Int-3 chart: progression of the number of projects in the portfolio within the UDF

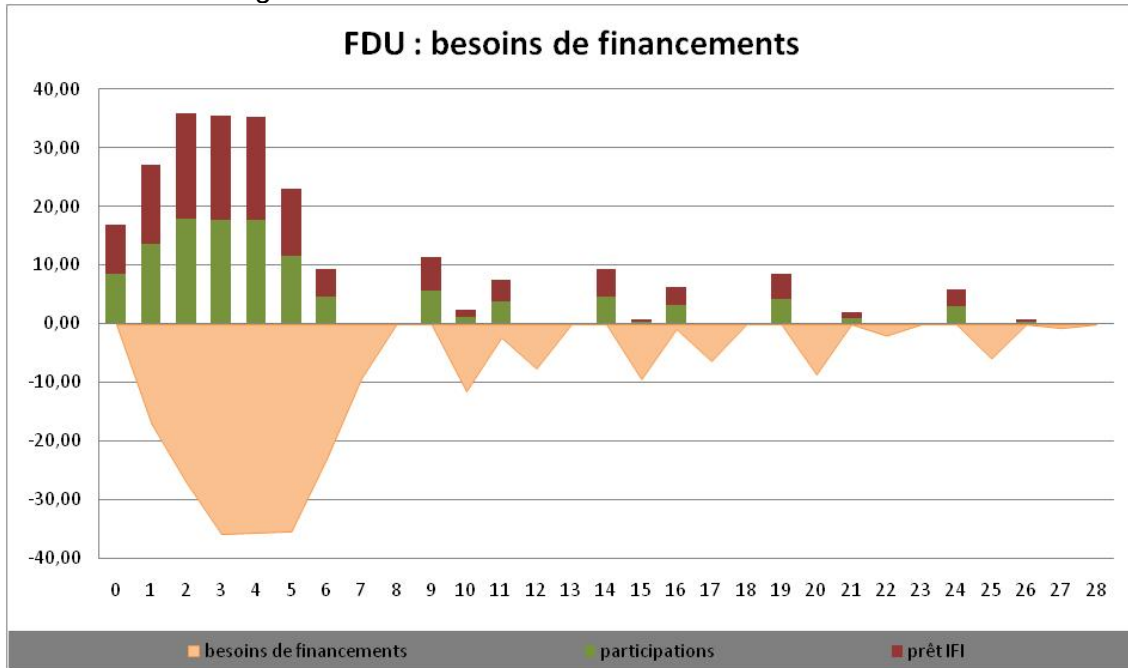


In this concrete example the need for finance is estimated at +/-242 million euros, concentrated on the first 10 years of operation of the fund. By way of illustration, these 242 million euros represent 32% of the accumulated amounts allocated by the two operational programmes (convergence and competitiveness and employment) for the axes devoted to balanced and sustainable regional development. In the case that concerns us, they will be able to finance a total of 90 projects for a total cumulative investment volume of 2.75 billion euros. The leverage effect is thus significant.

Ad hoc finance will subsequently be needed to fund new projects. More generally this means that in terms of financing needs the Fund will have to adapt to the number of projects in the portfolio. These financing needs are therefore difficult to estimate *ex ante*, and will depend on the aims envisaged for the tool.

It will up to the management of the UDF to strike a balance between effective circulation of the funds and efforts to obtain new regional funding or other support mechanisms. As has been explained, moreover, certain additional regional instruments and also certain fiscal mechanisms may allow a large number of variants and give the UDF the means to vary its strategies, depending on the economic context, the market conditions and the availability of support mechanisms.

Int-4 chart: financing needs of the UDF



9.4.6. Conclusions on this type of UDF

This scenario combines the advantages – and the disadvantages in terms of management and volumes of finance to be raised – of the other two scenarios, while at the same time envisaging an optimized configuration in which an instrument such as Jessica attains its full magnitude.

The conclusions that we can draw are therefore very similar to the conclusions of the report as a whole.

In the analysis of this UDF it is nonetheless possible to highlight its potential to translate the objectives of the Leipzig Charter on Sustainable European Cities at the Walloon level. This Charter, which is also called “European territorial agenda”, pursues objectives involving the strengthening of integrated urban development policy approaches by creating high-quality public spaces, modernizing infrastructure networks and improving energy efficiency, proactive innovation and educational policies, and, for deprived urban areas in particular, the promotion of environmentally benign, efficient and affordable urban transport, strategies for upgrading the urban environment, strengthening the local economy and local labour market policy, and proactive education and training policies for children and young people. It reserves a special place for Jessica.

10. Analysis of the financial, administrative and legal constraints associated with Jessica

Several technical questions about the financial, administrative and legal constraints can be asked if JESSICA is to be transposed to Wallonia. We will analyse three main points in this chapter:

- the financial risks to which investors are exposed;
- the compatibility with the ERDF regulations
- the compatibility between a PPP approach, the ERDF regulations, the European rules on competition and public procurement contracts.

The elements referred to in this chapter are approaches which will have to be validated technically if the option of implementing JESSICA in Wallonia is followed.

10.1. Financial risks

The question of the responsibility for the financial risk in connection with the implementation of JESSICA, in the event of failure of the project supported, for instance, calls for several responses in the cases examined here.

1) Let us recall first of all that the **initial situation – without JESSICA – represents a major risk for the managing authority and the EU**: both commit themselves, on the basis of a dossier whose completeness and soundness may be widely variable, to financing costly projects (or a portfolio of costly projects) where the contribution of the developers – often local authorities – is relatively modest. If the project in question gets into difficulties (experience shows that accidents can happen and the deadlines are difficult to meet, for example) the risk of losing the investment is real and completely covered by the managing authority, as the demands made by the EU in terms of the use or repayment of the funds may vary in stringency, in accordance with certain terms and conditions. This is a situation, therefore, where the Walloon Region effectively controls the risks associated with the project, but must also assume the major part of these risks in financial terms. This is mitigated only by the portfolio approach – adopted recently.

2) Involvement in JESSICA allows a threefold reduction in this initial risk structure by:

- investing in an intermediate structure in which other financial partners are also involved, and
- which at the same time will be involved in a number of projects presenting risk profiles which themselves are variable;
- thirdly, which will only finance one part of the investment (often 40%) needed for the implementation of the project, with the other parts needing to be covered with serious guarantees by own resources, other loans or additional subsidies.

The risk is thus softened by diversifying the financial partners within the structure and at project level, by diversifying the projects supported and finally by reducing the proportion of the investment financed. These first measures in themselves constitute a significant softening of the overall risk. Of course they also imply some loss of control by the regional authority compared with the initial situation referred to above.

3) In this situation two major difficulties may arise, in spite of everything:

A. insolvency or failure of one of the projects supported by the Fund	B. insolvency of the fund itself
<p>Among the measures for good UDF management, this case will have to be anticipated both by contemplating the worst eventuality for a limited number of projects and by trying to find a risk structure that is balanced between the projects supported.</p> <p>In a more operational manner, various types of measure must be envisaged in the operation of the fund:</p> <ul style="list-style-type: none"> - a system of guarantees or insurance against risks, the impacts of which may have repercussions for the financing conditions of the projects and/or the costs of operational running of the fund; - involvement of the investing partners in the risk structure of the project: the cities concerned and also the private investors must be able to commit themselves to taking responsibility in the event of a problem. This may constitute a condition of involvement for the UDF; - it should also be remembered in this connection that the traditional banks often stress that normal market conditions do not allow them to invest in broad portfolios, precisely because of the difficulty of gauging the risks and their magnitude. The banks will prefer on the other hand to get involved in projects if they form part of the strategy of a UDF. 	<p>This hypothesis is less likely for the reasons set out above, and if the UDF is managed carefully and rigorously with regard to the choice of projects it supports.</p> <p>Nevertheless, in the three types of structures proposed it may happen that it is the regional authority which has to bear the major part of the financial risk:</p> <ul style="list-style-type: none"> - in the first instance as the principal shareholder in the UDF; - indirectly in the support provided to the projects by the UDF – projects which it regards as important for meeting various objectives of general benefit. <p>Insofar as the support given by the international financial institution to the UDF is in the form of a loan, the structure set up – the UDF – will owe the principal and interest associated with the loan obtained from the financial institution concerned. In this particular case it is quite likely that the Region will have to bear a substantial part of this repayment if it stands surety for the commitments undertaken by the UDF. The same guarantee may be assumed by the SRIW, whose principal shareholder here also is the Region.</p> <p>Compromise solutions may of course be adopted under the terms of the agreement reached by the Walloon Region/SRIW and the IFI with regard to the rules of operation of the fund.</p>

4) In the cases envisaged, the European Funds derived from the ERDF do not have to be repaid, since the Commission considers that the disbursement of the ERDF within a UDF corresponds to a budget expense. One exception to this might be the insolvency of the UDF itself (Hypothesis B), where, in an extreme eventuality (rapid insolvency of the UDF, management errors, mismanagement of the Fund), the Walloon Region or its operator might be called upon to justify their actions to Europe and repay the share of the ERDF invested there. This hypothesis, to be confirmed, would be the result of a large number of unfortunate circumstances.

It would be interesting, moreover, to hear the opinions of the Commission and the EIB on this subject: as risk is inherent in mechanisms such as JESSICA, sanctioning possible failure with an obligation to repay part of the initial investment would send a negative signal to potential applicants.

10.2. Compatibility with ERDF regulations

Other feasibility studies made in other European countries on the implementation of Jessica have highlighted a number of legal problems that must be considered.

Some of these problem areas have evolved gradually within the community legislation itself. In the context of this study the following relevant documents in particular have been consulted:

- COCOF 08/0002/02 – EN: Guidance note on financial engineering²⁹;
- the EIB's JESSICA preliminary evaluation study of January 2007³⁰;
- the Commission's working document entitled: *State Aid Control and Regeneration of Deprived Urban Areas*³¹: this document of the DG Competition, published in 2006, lays down the general policy, presents the principal state aid measures approved in the sphere of urban regeneration and summarizes the guidelines and recommendations relating to state aid and urban regeneration. The vade-mecum is purely informative and does not create a new policy on state aid for urban regeneration. It is meant to be a guide for practitioners in this field and opens up new approaches with regard to eligible investments;
- the guide to the rules applicable to the procedures for awarding public service contracts in sectors other than water, energy, transport and telecommunications;
- REGULATION (EC) No. 1080/2006 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 5 July 2006 on the European Regional Development Fund and repealing Regulation (EC) No. 1783/1999;
- COUNCIL REGULATION (EC) No. 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No. 1260/1999;
- COMMISSION REGULATION (EC) No. 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) No. 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No. 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund;
- the Guide entitled "The urban dimension in European Union policies for the period 2007-2013", which clearly states that under the new rules the Managing Authorities of the Structural Fund programmes can finance a wide range of public-private partnerships (PPPs) and ensure simpler and more flexible management of the funds earmarked for urban development³².

10.2.1. Eligibility of ERDF expenditure

Article 56 of the aforesaid Council Regulation 1083/2006 lists the rules on eligibility of expenditure and notes the following:

²⁹ http://ec.europa.eu/regional_policy/sources/docgener/presenta/eligibility/eligibility_2009_en.pdf

³⁰ http://www.eib.org/attachments/jessica_preliminary_evaluation_study.pdf#93

³¹ http://ec.europa.eu/competition/state_aid/studies_reports/vademecum.pdf

³² http://ec.europa.eu/regional_policy/sources/docgener/guides/urban/pdf/urbanguide1_en.pdf, p. 21.

"1. Expenditure, including for major projects, shall be eligible for a contribution from the Funds if it has actually been paid between the date of submission of the operational programmes to the Commission or from 1 January 2007, whichever is earlier, and 31 December 2015. Operations must not have been completed before the starting date for eligibility.

[...]

3. Expenditure shall be eligible for a contribution from the Funds only where incurred for operations decided on by the managing authority of the operational programme concerned or under its responsibility, in accordance with criteria fixed by the monitoring committee.

[...]

4. The rules on the eligibility of expenditure shall be laid down at national level subject to the exceptions provided for in the specific Regulations for each Fund. They shall cover the entirety of the expenditure declared under the operational programme."

In the context of JESSICA it is possible that PPPs or other urban projects via which the UDFs decide to invest may include components that would not be eligible for aid from the Structural Funds.

For that reason, in order to ensure a transparent auditing procedure which allows expenditure eligible for the structural funds to be distinguished from ineligible expenditure, the UDF(s) must adopt and maintain a separate accounting system or use a different accounting code for the cofinanced expenditure until the final stage of implementation of the project.

It should be noted in this connection that Article 78 of the same Regulation states that by way of derogation from the mechanism for statement of expenditure referred to in paragraph 1 of the Article, *"as regards financial engineering instruments as defined in Article 44, the statement of expenditure shall include the total expenditure paid in establishing or contributing to such funds or holding funds"*.

The Article states that *"at the partial or final closure of the operational programme, eligible expenditure shall be the total of:*

- a) any payments from urban development funds for investment in public private partnerships or other projects included in an integrated plan for urban development; or*
- b) any payments for investments in enterprises from each of the abovementioned funds; or*
- c) any guarantees provided including amounts committed as guarantees by guarantee funds; and*
- d) eligible management costs.*

The co-financing rate shall be applied to the eligible expenditure paid by the beneficiary. The corresponding statement of expenditure shall be corrected accordingly."

3.3.2. Selection of the Urban Development Fund and conformity with public procurement and state aid procedures

Article 44 of the aforesaid Council Regulation 1083/2006 deals with financial engineering instruments and is worded as follows:

*"As part of an operational programme, the Structural Funds may finance expenditure in respect of an operation comprising contributions to support financial engineering instruments for enterprises, primarily small and medium-sized ones, such as venture capital funds, guarantee funds and loan funds, **and for urban development funds, that is, funds investing in public-private partnerships and other projects included in an integrated plan for sustainable urban development.***

When such operations are organised through holding funds, that is, funds set up to invest in several venture capital funds, guarantee funds, loan funds and urban development funds, the Member State or the managing authority shall implement them through one or more of the following forms:

- a) the award of a public contract in accordance with applicable public procurement law;*
- b) in other cases, where the agreement is not a public service contract within the meaning of public procurement law, the award of a grant, defined for this purpose as a direct financial contribution by way of a donation:
 - i) to the EIB or to the EIF; or*
 - ii) to a financial institution without a call for proposal, if this is pursuant to a national law compatible with the Treaty."**

This Article has been clarified in a Guidance Note on Financial Engineering (COCOF 08/0002/02 – EN) according to which "a grant awarded to a national (or regional) financial institution to meet the objectives of Article 44 (b) of the aforesaid Council Regulation No. 1083/2006 may be authorized only if the national law fulfils the following criteria:

- it designates the financial institution in question;
- it presents the public policy objectives justifying the direct award of a grant to it;
- it justifies the existence within this financial institution of the expertise necessary for the successful accomplishment of the holding fund (or UDF) tasks.

Section 2B of the same Note states that the managing authority or the fund, as the case may be, should examine whether their contributions from operational programmes to specific financial engineering instruments would correspond to public procurement of services governed by the EC or national public procurement law.

In Section A.1.2 the same Note makes clear the distinction between a grant and a public procurement contract and lists their features.

The conditions relating to contributions to a financial instrument other than a holding fund (directly to an Urban Development Fund) are set out in Article 43 of Council Regulation 1828/2006 and further explained in Point 2B of Note COCOF 07/0018/01 of 16 July 2007:

"When the Structural Funds finance operations comprising financial engineering instruments, including those organised through holding funds, a business plan shall be submitted by the co-financing partners or shareholders or by their duly authorised representative.

The business plan shall specify at least the following:

- a) the targeted market of enterprises or urban projects and the criteria, terms and conditions for financing them;
- b) the operational budget of the financial engineering instrument;
- c) the ownership of the financial engineering instrument;
- d) the co-financing partners or shareholders;
- e) the by-laws of the financial engineering instrument;

- f) the provisions on professionalism, competence and independence of the management;
- g) the justification for, and intended use of, the contribution from the Structural Funds;
- h) the policy of the financial engineering instrument concerning exit from investments in enterprises or urban projects;
- i) the winding-up provisions of the financial engineering instruments, including the reutilisation of resources returned to the financial engineering instrument from investments or left over after all guarantees have been honoured, attributable to the contribution from the operational programme.

The business plan shall be assessed and its implementation monitored by, or under the responsibility of, the Member State or the managing authority.

The assessment of the economic viability of the investment activities of the financial engineering instruments shall take into account all sources of income of the enterprises concerned".

Article 43 also specifies that:

- "Financial engineering instruments, including holding funds, shall be set up as independent legal entities governed by agreements between the co-financing partners or shareholders or as a separate block of finance within a financial institution.
- The Commission may not become a co-financing partner or shareholder in financial engineering instruments".

This Article also contains other provisions.

3.3.3. State aid

Recital (26) of REGULATION (EC) 1828/2006 recalls that: "contributions to financial engineering instruments from the operational programme and other public sources, as well as the investments made by financial engineering instruments in individual enterprises, are subject to the rules on State aid, including the Community Guidelines on State aid to promote risk capital investments in small and medium-sized enterprises".

Support for urban development projects through JESSICA or similar instruments is governed by Art. 87 of the Treaty establishing the European Community. The JESSICA mechanism is intended to provide support for developers of urban development projects by making use in particular of the Structural Funds (public funds), so its implementation must be evaluated in the light of the rules on State aid. It should be stressed that the support provided by JESSICA will not automatically constitute an infringement of the said rules on state aid, insofar as it may have been given under market conditions.

Urban regeneration comprises a broad spectrum of measures including the promotion of entrepreneurial initiative or employment, rehabilitation of the architectural or natural heritage, and community development. Public finance is needed for some of these measures. Some of this finance may constitute state aid under the terms of Article 87(1) of the Treaty. Any public measure for urban regeneration and development must therefore conform to the European rules and procedures on state aid which are applicable at the time when the public support is granted.

Insofar as an urban regeneration dynamic is multidimensional, however, the Commission appreciates that the approach of the Member States is diversified: they may want to invest directly in regeneration programmes but also decide to involve the private sector. The interactions between urban regeneration and state aid must consequently take this aspect into account and authorize a certain margin for manoeuvre.

As a result, in the current setup, the way in which the rules on state aid are applied by the Commission and the Member States offers the flexibility needed for integrating diverse and innovative measures in a constantly evolving environment.

One interesting point that should be made, as in the IDEA *consult* report on the feasibility of JESSICA in Flanders, is that when it assesses the implications of PPPs for state aid the Commission regards the following elements as essential:

- the financing mechanisms of the PPPs may or may not involve state aid to one or more of the financing partners. State aid could be involved if there is overcompensation for the costs of the private partners;
- for all types of PPP the private partners must be chosen in accordance with the Community rules on public procurement when these rules are applicable. A properly conducted consultation procedure will provide a reasonable guarantee that the private partners will be remunerated under market conditions. In the absence of a tendering procedure the Commission will look at the detailed terms and conditions of the PPP and the guarantees put in place to avoid overcompensation, in order to determine whether state aid is involved;
- the contractual arrangements between the parties must be compatible with the Community anti-trust rules, such as the prices clients are charged when a PPP is set up, for instance.

In the area of urban regeneration, the practical experience of the Commission shows that the rules on state aid applied may conflict with the constraints of the projects implemented. A number of possibilities for supporting urban regeneration co-exist, either by direct application of Article 87 of the Treaty (especially §3 of the Article) or through across-the-board measures such as activation of the general rules on exemption by category, application of the guidelines on environmental protection, venture capital, etc.

11. Conclusions: proposal for a Jessica implementation strategy in Wallonia and overall feasibility conditions

The elements presented in this report point to two conclusions which are not necessarily complementary:

- on the one hand, a strategic interest in moving towards the establishment of Jessica in Wallonia, by a process which can be both incremental (step-by-step procedure) and ambitious, and envisage the setting up of an integrated UDF in a time scale of two or three years;
- at the same time there are a number of operational difficulties and cultural obstacles to moving towards this type of instrument in the current operational framework of the structural funds.

We will therefore first of all identify some overall feasibility conditions for the successful implementation of Jessica in Wallonia. Conditions which, if fulfilled, will allow effective progress to be made in the implementation of a structured action plan which we then outline.

11.1. Conditions transversales de réussite

11.1. Overall conditions for success

- At the current stage of implementation of the Structural Funds in Wallonia there are no longer any budgets available to supply an Urban Development Fund. The proposed action plan makes more sense if part of the ERDF allocation is made available in the framework of the implementation of the two operational programmes that concern Wallonia, for reasons which may be quite different. If necessary, preparing to set up a light-weight UDF quickly on the basis of the model developed in Scenario 1 may prove to be a useful anticipatory measure (cf. below, first stage of the action plan).
- This does not mean that the scheme proposed is inconceivable outside the ERDF. This hypothesis would, moreover, allow greater flexibility in the choice of projects to be supported, notably with regard to housing. The process could be longer and would need strategic reorientations (and therefore political decisions) in the earmarking of the resources currently earmarked for various Walloon instruments relating to urban renewal, urban revitalization and/or SAR [sites for redevelopment], notably the Walloon instruments described at length in the present report.
- One cannot help thinking, however, that if this last option is chosen, the coexistence of a broad subsidy mechanism (of the ERDF type) with the implementation of JESSICA via a UDF devoted to urban renewal will be harmful to the success of the instrument that is of least benefit to the project developer. By way of comparison, the Walloon incentives for urban renewal have themselves faced indirect competition from the structural funds for a number of years, even though they work on the basis of direct subsidies. It is essential therefore for one approach to be replaced by another and a clear message to this effect sent to the project developers. The current uncertainty about what will happen after 2013 in Wallonia (and the rest of Europe) is not favourable to this kind of clarification, the priority being everywhere to manage to spend the current budget allocation effectively, in the belief that the joint support from

Europe and the Region will almost certainly be renewed. It is not impossible, however, that the Commission may decide gradually to make access to the Structural Funds subject to specific conditions and to consider them as an incentive for the private sector to get involved in the objectives pursued, for example:

- * by making the ability to attract private investors so as to maximize the leverage effect a requirement for ERDF financing;

- * by providing an incentive for municipalities and cities which decide to make use of a revolving facility for their urban regeneration project. This can be achieved by authorizing the municipalities to re-invest some of the revenue generated by the project in their own municipality.

- Whatever the circumstances, the establishment of a UDF necessitates an overall review of the instruments for support of urban investment in Wallonia, as well as the mechanisms that may be associated with them, depending on the thematic areas covered by the UDF: rehabilitation of urban wasteland, energy investments, subsidies for infrastructures... The essential condition for success is to get away from a way of thinking where projects are financed entirely or mainly by subsidies, and instead get developers to think of setting up their project in accordance with the ideas inspired by the UDF. In this respect the scenarios proposed illustrate the margins which can be retained in each of these approaches. During a crisis – and potentially a fairly long crisis – it may also be crucial for the Walloon Government to use its budgetary resources with greater efficiency, drawing on the expertise of international financial institutions.
- A look at the stakeholders that might get involved in a Walloon UDF reveals a certain paucity: there are very few regional stakeholders that have sufficient liquidity to invest in the UDF, the SRIW being the most robust project developer that emerges with the ability to set up a specialized subsidiary or service. We must point out that the SRIW does not at the moment have any mandate to play such a role and has not expressed any desire to do so. It has merely shown its interest in the JESSICA initiative.
- With regard to management of the UDF, there are alternatives to the SRIW, both in the public sector and on the market, among private operators, but these practices are not necessarily inherent in Walloon culture. In the current setups the public services deal with applications for subsidies, while the banks channel applications for loans. Projects that exhibit more innovative financial engineering are rare. That does not mean that such an approach should not be followed. In the current state of affairs we think that the SRIW is equipped to offer the international financial institutions the best guarantees of effective management of a UDF.
- The last key factor for success is in point of fact the attitude which the international financial institutions will adopt with regard to Wallonia and the UDF structure it proposes. Among the elements highlighted in this report, the rate of interest which will be offered by stakeholders such as the EIB or the CEB is of course a key issue. The conditions offered must be competitive relative to the market conditions. But more symbolic incentives may also turn out to be effective stimuli in a context where Walloon development has everything to gain from signals of confidence sent by international stakeholders. Obtaining the support of European banks, together with expert technical assistance in setting up the instrument, would send strong signals to Walloon stakeholders, and more generally to Belgium, with regard to the pertinence of the strategy followed and its expected medium- and long-term effects.

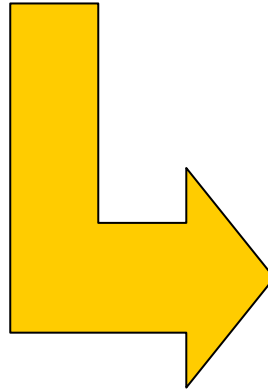
11.2. Proposal for an implementation strategy

In the detailed chart which follows, we propose a step-by-step chronological sequence of stages for setting up JESSICA in Wallonia. A dual pathway is proposed, which will make it possible to deal with the eventuality of the Structural Funds being recycled in a UDF because the budgets allocated for Axis 3 of the two operational programmes are not adequately used. The dual pathway is intended to be complementary, but each path can exist separately.

Stages	Path 1 (ERDF)	Path 2 (policy for cities)
Stage 0 First half of 2010	Based on a report that the Axis 3 budgets have not been used up, the WG agrees to the idea of setting up a UDF in accordance with Scenario 1	the instruments which together can help to build a policy for cities in Wallonia are evaluated in terms of their effectiveness and structural impact upon the long-term socio-economic development of the conurbations
Stage 1 First half of 2010	An agreement is signed between the WG and the EIB/CEB to set up a light-weight UDF in Wallonia. The SRIW is designated as the manager of the tool	An evaluation report proves or disproves the need to develop a policy for cities in Wallonia. If the need is proved: ↓
Stage 2 Second half of 2010	A critical assessment is made of the progress of the projects financed by Axis 3. For projects where there are problems with progress, renegotiation of the budgets and transfer to the UDF are organized. The financial options are validated by an independent expert	A political agreement is reached to lay down the bases of a policy for cities in Wallonia and support the establishment of a large-scale sustainable urban development UDF (Scenario 3). The financial options are validated by an independent expert.
Stage 3 First half of 2011	The UDF is functional and makes it possible to continue the work started since 2009 for the projects running late. It is a "pilot" UDF which makes it possible to trial the tool	The WG and the IFIs negotiate the conditions of operation of the integrated UDF, sign a significant partnership agreement and designate an operator to manage the UDF, by a call for projects

Stage 4
Second half
of 2011

An assessment is made of the operation of the pilot UDF. Any adjustments needed are made. If the experiment is conclusive:



Stage 5 et seq.
from 2012 to 20..

A first call for projects is made to Walloon cities/conurbations with a population of more than 50,000, asking for

- a sustainable urban development plan for the city
- a project to be financed

In parallel with this, information and training sessions are organized in the major Walloon cities

The UDF regularly (once a year) makes calls for projects on the basis of sustainable urban development plans which are regularly updated by the cities and validated by the Wallonia Public Service.

The UDF portfolio is progressively consolidated. Its management is effective. From 2014 onwards the UDF can be replenished from financial sources from Europe (if the cohesion policy is continued) or with Walloon funds. Wallonia demonstrates its ability to implement an innovative first-class financial instrument.

11.3. Table comparing the different types of UDF proposed

Name of the UDF	Target	Structure	Management	Investments	# projects > 30 years	Total investment financed > 30 years	Break-even period
Eco-district	Medium-sized urban projects, with a marked social and environmental component	Simple, on one level: A thematic UDF financed equally by the WR and an IFI	Walloon organization of the SRIW type. Subcontracting possible	WR: 21 million € IFI: 21 million € 400 million over the whole period	50-60 (10 projects in the portfolio per annum > 10 years)	1 billion €	10 years
Structural project	Large-scale projects of complex structure	On 2 levels: - A thematic UDF financed equally by the WR and an IFI - a project SEM [semi-public company] involving a private partner	Walloon organization of the SRIW type. Subcontracting possible "Light-weight" decision-making EB	WR: 16 million € IFI: 16 million € 197 million over the whole period	10 projects	297 million €	Variable
Integrated Regional UDF	Several types of diversified projects	On 2 levels: - A thematic UDF financed equally by the WR and an IFI - one or more project SEMs [semi-public companies] involving a private partner	Walloon organization of the SRIW type. Subcontracting possible "Heavy-weight" decision-making EB	WR: 15 million € IFI: 15 million € 242 million over the whole period	90 projects	Potentially: 2.75 billion €	Variable