Regional Studies, Regional Science
Publication details, including instructions for authors and subscription information:
http://www.tandfonline.com/loi/rsrs20

‘Doing more with less’ or ‘doing less with less’? Assessing EU cohesion policy’s financial instruments for urban development

Marcin Dąbrowski

a Research Fellow, Department of Urbanism, Delft University of Technology, Delft, The Netherlands
Published online: 30 Jan 2015.

To cite this article: Marcin Dąbrowski (2015) ‘Doing more with less’ or ‘doing less with less’? Assessing EU cohesion policy’s financial instruments for urban development, Regional Studies, Regional Science, 2:1, 73-96, DOI: 10.1080/21681376.2014.999107

To link to this article: http://dx.doi.org/10.1080/21681376.2014.999107

PLEASE SCROLL DOWN FOR ARTICLE

Taylor & Francis makes every effort to ensure the accuracy of all the information (the “Content”) contained in the publications on our platform. Taylor & Francis, our agents, and our licensors make no representations or warranties whatsoever as to the accuracy, completeness, or suitability for any purpose of the Content. Versions of published Taylor & Francis and Routledge Open articles and Taylor & Francis and Routledge Open Select articles posted to institutional or subject repositories or any other third-party website are without warranty from Taylor & Francis of any kind, either expressed or implied, including, but not limited to, warranties of merchantability, fitness for a particular purpose, or non-infringement. Any opinions and views expressed in this article are the opinions and views of the authors, and are not the views of or endorsed by Taylor & Francis. The accuracy of the Content should not be relied upon and should be independently verified with primary sources of information. Taylor & Francis shall not be liable for any losses, actions, claims, proceedings, demands, costs, expenses, damages, and other liabilities whatsoever or howsoever caused arising directly or indirectly in connection with, in relation to or arising out of the use of the Content.
It is essential that you check the license status of any given Open and Open Select article to confirm conditions of access and use.
Doing more with less’ or ‘doing less with less’? Assessing EU cohesion policy’s financial instruments for urban development

Marcin Dąbrowski*

Research Fellow, Department of Urbanism, Delft University of Technology, Delft, The Netherlands

(Received 29 July 2014; accepted 12 December 2014)

In the context of a severe economic crisis and austerity, new ideas were put forward to reform cohesion policy to enhance its effectiveness and the return on investment. Among them, financial engineering instruments, such as JESSICA, expected to offer a means to ‘do more with less’ in this difficult budgetary context. In the case of such instruments, EU funds are not offered as grants co-financing investment projects, but rather are used to provide repayable assistance to projects, a form of support. Such revolving funds approach is in stark contrast with the grant-based assistance typically offered as part of EU cohesion policy and was expected to increase the sustainability and effectiveness of interventions. But does it fulfil those expectations? This paper examines JESSICA through the conceptual lens of policy instruments literature. It verifies whether JESSICA is actually fit for its purpose of supporting sustainable urban development. It also gauges the impacts of instrument on the behaviour of the actors involved in its implementation at the sub-national level. The findings indicate that JESSICA is a flawed and overly complex instrument that instead of doing ‘more with less’ only allows for achieving ‘less with less’. However, it still exerts a positive influence on the sub-national authorities involved by promoting cross-sectoral interactions and facilitating learning. It also promotes a change in the approach to EU cohesion policy and public investment more generally, putting more emphasis on economic viability of investment.

Keywords: EU cohesion policy; JESSICA; financial engineering instruments; urban development; policy instruments; tools of government

1. Introduction

The long standing pressures to deliver better results with the EU cohesion policy’s Structural Funds have been intensified in the current context of an unprecedented crisis and austerity. EU cohesion policy is nowadays expected to achieve more tangible outcomes with fewer resources, which requires putting forward a focus on return on investment and sustainability of interventions, better strategic management, as well as the integrated and place-based approach. In order to respond to these demands and criticism for the lack of tangible results, a range of new or modified instruments and tools were introduced in the recent years into the EU cohesion policy framework.

This study aims at shedding light on the implementation of the Financial Engineering Instruments (FEI) introduced into the Structural Funds regulations for the 2007–2013 period as one of the means to deliver better results and enhance their efficiency and effectiveness. More specifically, it looks into the operation of one of such tools, the...
Joint European Support for Sustainable Investment in City Areas (JESSICA), an innovative instrument using the EU Structural Funds to provide repayable assistance for urban development projects.

To this aim, the paper draws on the literature on public policy instruments (e.g. Hood, 2007; Kassim & Le Gales, 2010; Lascoumes & Le Gales, 2007; Salamon, 2002b). One strand of this literature, which can be labelled as functional, investigates the characteristics of the specific policy tools used by the contemporary governments, often making recourse to networks of intermediaries and highly technical devices. It asks questions about whether these tools deliver their promises and allow for achieving the objectives that were assigned to them (e.g. Salamon, 2002b). Another strand of the policy instruments literature strives to reveal how policy instrumentation determines the way in which the policy actors behave, change the power relationships between them, provides them with resources, and promotes specific perceptions and approaches to the objects of public policy (e.g. Lascoumes & Le Gales, 2007). The choice of a particular policy instrument may thus have profound effects on the actors involved and may create scope for new interpretations and learning (institutionalisation). As a result, introduction of a new instrument within a policy may create new (often less apparent) dynamics of change having profound effects on policies that appear to be path dependent and resist change. In some cases, policy instruments ‘may be a useful smokescreen to hide less respectable objectives [of governments], to depoliticise fundamentally political issues, or to create a minimum consensus on reform by relying on the apparent neutrality of instruments presented as modern’ (Kassim & Le Galès, 2010, pp. 6; 6), which in turn allows for discretely introducing changes into controversial policies.

It can be argued that the introduction of JESSICA and other FEI into EU cohesion policy has triggered such dynamics. It can be considered as a technical device to introduce a new form of financing, but also a social device. Its underpinning aim is to affect behaviour of actors (more reflection on the return on investment, quality and sustainability, seeking synergies between investment generating profit and benefits to the community) to ensure greater effectiveness of interventions, but it also has effects on the interaction between the policy actors because it brings in new actors and creates new incentives for cross-sectoral cooperation. That said, since the instrument is relatively new, still unknown to the wider public and somewhat obscured, on the one hand, by a positively loaded discourse on the benefits of the financial engineering, and on the other hand, by the highly technical language used to describe their complex architecture. There is hardly any research on its operation and impacts to date, apart from a first breed of mostly ex-ante academic and policy evaluations (Kalvet, Vanags, & Maniokas, 2012; Kolivas, 2007; MAZARS, ECORYS, & EPRC, 2012; Michie & Wishlade, 2012). More generally, while the instruments approach has been applied to examine various EU policies (see Kassim & Le Galès, 2010), there is only one study that uses it to study an aspect of EU cohesion policy - Ian Bache’s work concentrating on the partnership principle (2010) - despite the great potential of this approach to explain the less visible properties and dynamics of this policy in the regions and municipalities where its Structural Funds are implemented. Against this background, this paper employs the policy instruments approach to answer the following research questions. What are the properties of JESSICA as a tool of government? Is it fit for its purpose? Does it fulfil its promise of doing more with less to stimulate urban development? What are the effects of JESSICA on the actor’s behaviour? It will do so by investigating the operation of JESSICA two of the regions that were early adopters of this new tool: Wielkopolskie in Poland and Andalusia in Spain.
The remainder of the paper is structured as follows. First, FEI in EU cohesion policy and JESSICA will be presented. Second, the policy instruments literature will be briefly reviewed to provide a theoretical background for the study. Third, JESSICA and its fit for purpose will be assessed. Fourth, this will be followed by an analysis of the impact of this instrument on the behaviour of the policy actors at the regional level. The article will close with concluding remarks.

2. JESSICA, one of the financial engineering instruments in EU cohesion policy

In a nutshell, JESSICA is an innovative delivery mechanism for the European Regional Development Fund (ERDF), developed by the European Commission in cooperation with the EIB and supported by the Council of Europe Development Bank, which allows for allocating assistance for sustainable urban development projects on a revolving basis (as opposed to the currently predominant grant-based assistance). This means that the capital provided can be reinvested in new projects, thus enabling the ‘recycling of funds’. From the governance point of view, the novel aspect of JESSICA, which can be expected to extend the horizontal dimension of MLG, is that this instrument is to be implemented in collaboration with financial intermediaries and private investors (see Figure 1).

The SF regulations for the 2007–2013 period allow the Managing Authorities (MAs) operating at the national or regional level to use part of their ERDF allocation to set up the so-called Urban Development Funds (UDF), offering repayable assistance for

![Figure 1. JESSICA implementation system.](source: adapted from Kreuz and Nadler 2011, p. 12.)
urban development projects. The management of the UDFs is to be delegated to financial institutions that dispose of expertise in this kind of financial operation. Optionally, Holding Funds (HF) may be created if the ERDF managing authorities lack adequate expertise and wish to benefit from the know-how and assistance of financial institutions to set the UDFs. Typically, HFs are set up and managed by the EIB on behalf of the MAs. They select UDF managers through a tendering procedure, provide funding for the UDFs, monitor their operation as a service to the Managing Authorities, and provide general technical assistance to the actors involved in JESSICA.

Finally, the financial assistance for projects is offered in the form of loans, guarantees or equity for urban investment projects. The projects are to be implemented by public or private investors or in public-private partnerships. In order to be able to pay back the assistance offered, they need to generate profits. At the same time, however, the projects have to generate positive externalities (social or public benefits for citizens) in line with the policy objectives set out in the Operational Programs and integrated urban development plans. The projects to benefit from the scheme are appraised by the UDF managing institution that provides the project leaders with guidance and assistance in meeting those requirements.

JESSICA and the governance framework established for the purpose of its implementation are expected to bring a range of benefits (Kreuz & Nadler, 2011; Webb, Hummerstone, Karlsson, Hirst, & Blin, 2011). First, revolving assistance is widely expected to be a more sustainable alternative or complement to the assistance traditionally provided through grants, creating stronger incentives for successful implementation by beneficiaries. Second, the possibility to tailor the financial instruments (equity, debt or guarantee investment) and the implementation system to specific regional needs offers greater flexibility than the pre-existing system for distribution of the SF in the form of grants. Third, JESSICA allows for leveraging additional finance, as public and private finance is brought in to further support the investment on top of the EU structural funds monies. Finally, the collaboration between the regional and local authorities on the one hand, and the financial institutions and private investors on the other hand, is expected to allow for pooling expertise and building new kinds of partnerships. This thinking on JESSICA seems to chime with the common understanding of the advantages of private sector involvement in public projects – public-private partnership (PPP) – in which the assets of the private actors (managerial efficiency, flexibility, entrepreneurial attitude and innovativeness, access to finance and expert knowledge, etc.) can be combined with those of the public sector actors who are supposed to know better the actual urban problems to be addressed and are sensitive to social and environmental responsibility (Bennett, James, & Grohmann, 2000).

However, public-private collaboration to stimulate sustainable urban development tends to be challenging, not least due discrepancy between the private actors’ focus on short-term gains from investment and a long-term perspective that is required in such interventions (Koppenjan & Enserink, 2009). The policy reports (Kreuz & Nadler, 2011; MAZARS et al., 2012) and the few existing studies providing an early assessment of the operation of JESSICA and other FEI (Kalvet et al., 2012; Kolivas, 2007; Michie & Wishlade, 2012), pointed out that reaping the expected benefits of these instruments cannot be taken for granted due to lack of experience with these kinds of tools and uncertainties about the rules guiding their application. As will be demonstrated below, while some of the expected benefits of JESSICA did partly materialise, in practice there is a number of obstacles standing in the way of effective and more widespread use of this new instrument.
3. The policy instruments approach as analytical lens to study JESSICA

The policy instruments approach offers a useful analytical lens to study the properties and effects of new elements of a public policy, such as the relatively recently launched FEI in EU cohesion policy. The key idea underpinning this approach is that policy instruments are not neutral, as they are introduced into policies to achieve given aims and objectives in a particular context and can have both intended and unintended effects on the behaviour of the policy actors involved according to their specific logic.²

3.1. Functional approach (‘tools of government’)

There are two major strands in this literature. The first one, rooted in the Anglo-Saxon scholarly tradition, can be labelled as functional. Its main concern is to assess whether new policy instruments are fit for their purpose. The approach focuses on the role of the ‘tools of government’ (policy instruments) in the transformation of the state since the late twentieth century, involving a shift from government to governance and increasing involvement in non-state actors in policy delivery. It tries to suggest which instruments should be used in order to avoid policy failures and deliver the best outcomes in this context. According to Salamon ‘a tool of public action is an identifiable method through which collective action is structured to address a public problem’ (2002a: 19). Therefore, tools can be understood as institutions that shape the actors’ behaviour and the patterns of their interactions.

This approach addresses the questions raised by the rise of the ‘new governance’, i.e. the relatively recent shifts in the exercise of power and delivery of public policies. The direct delivery of goods and services by public servants is hence being increasingly supplemented or replaced by networked-based governance and the use of a range of tools such as loans, loan guarantees, regulatory instruments, contractual agreements, etc. As Salomon remarks, each of those instruments has its own logic and own ‘political economy’, that may profoundly change the provision of public policies for instance by allocating the discretion to use public authority and spend public money to actors from outside the public sector (2002a). This can profoundly change the nature and the governance of public policies, by bringing in new kinds of actors, such as semi-public agencies, banking institutions or private service providers. These actors in turn bring in their own worldviews, priorities, modes of operation and ways of doing things into the policy-making process, rendering the policy less direct and its governance more complex and opaque. The rise of the ‘new governance’ is closely linked to the ‘new public management’ paradigm whereby a range of non-state actors are brought into the policy processes and participate in their making and implementation through network structures. The ‘new governance’ thus echoes the neoliberal conception of state that is ‘lighter’ and employs contracting out and market-like tools rather than direct intervention to deliver public policy objectives (Hood, 2007; L. M. Salamon, 2002).

The case of FEI in EU cohesion policy, where the banking and financial institutions are being introduced in an unprecedented way as important intermediaries in the process of implementation of the Structural Funds, offers an illustration of such developments. For instance in JESSICA a major role in the Implementation process is allocated to the EIB and public and private banking or investment organisations. Reflecting the Salomon’s contention that policy instruments are not politically neutral and tend to cater to the interests of particular groups of actors, one can also argue that FEI are also far from being neutral. They chime with the interests of financial institutions involved in...
their implementation but also those of the net contributors to the EU budget pledging to limit the squandering of EU funds and make sure that they offer more tangible effects and returns on investment, particularly in the current times of crisis and austerity. One could also speculate that these richer EU member states are more likely to directly benefit from FEI as they dispose of greater administrative capacity, an asset required to manage and take advantage of this complex tool.

Salamon proposed a set of criteria to evaluate the extent to which policy instruments were fit for their purpose, which was applied to study a range of policy tools, such as economic and social regulation, vouchers, contracting, grants or loans and guarantees (Betsill & Bulkeley, 2007). First criterion is effectiveness or the extent to which the tool achieves its objectives (Salamon, 2002a, p. 23). This is, however, difficult to measure not only because the objectives of policy instruments are often vaguely specified, but also because their effectiveness varies with the circumstances, thus a tool can be more or less effective for instance across different territories where it is applied.

The second criterion is efficiency, which is about balancing the results achieved against the costs of implementation of the tool (SALAMON, 2002a, p. 23). What matters here is not only the cost to the government but also to the other social actors.

The third criterion, equity, has two dimensions. It can refer to fairness in distribution, that is even distribution of benefits and costs to all eligible actors (e.g. even distribution across territory of a country), but it can also refer to redistribution, whereby benefits of an instruments are channelled disproportionately that are the most in need of assistance (SALAMON, 2002a, pp. 23–24).

The fourth criterion is manageability or implementability of a tool, i.e. the ease or difficulty in operating them. In fact, some tools promise great efficiency and effectiveness but are extremely difficult and cumbersome to implement and thus are unlikely to deliver in practice (Salamon, 2002a, p. 24).

The fifth and last criterion is legitimacy and political feasibility (SALAMON, 2002a, p. 24). This involves assessing how the choice of a tool/instrument can affect the perceived legitimacy of public action. It depends on which actors participate in and shape implementation and which actors benefit from and supports the new tool or loose out and oppose it. The distribution of the benefits and costs of the tool across the different groups determines the possibility of winning political support for its introduction. Moreover, the use of specific tools may affect broader perceptions of the government’s actions and hence its legitimacy. For instance if a tool facilitates accountability for spending public money more than other solutions, than it can enhance the perception of the government in the eyes of the citizens and, conversely, when an instrument makes it harder to understand that the taxpayer’s money is well spent than it negatively affects the government’s legitimacy.

3.2. Sociological perspective on policy instruments

The sociological approach to instruments, the main proponents of which are Lascoumes and Le Gales (2004, 2007), reflects another perspective on the policy instrumentation and puts forward the power dimension of the choice of instruments and their effects on the actors’ behaviour through changing structures of opportunity and promotion of particular values and perceptions. In this strand of the literature, policy instruments are considered as
‘a means of orienting relations between political society (via the administrative executive) and civil society (via its administered subjects), through intermediaries in the form of devices that mix technical components (measuring, calculating, the rule of law, procedure) and social components (representation, symbol).’ (Lascoumes & Galès, 2007, p. 7)

This approach, hence, considers instruments as institutions that shape the structure of opportunity and the behaviour of actors. As Lascoumes and Le Gales contend,

‘instruments really are institutions, as they partly determine the way in which the actors are going to behave; they create uncertainties about the effects of the balance of power; they will eventually privilege certain actors and interests and exclude others; they constrain the actors while offering them possibilities; they drive forward a certain representation of problems. The social and political actors therefore have capacities for action that differ widely according to the instruments chosen.’ (2007, p. 9)

The instrument approach has been relatively seldom applied to the study of EU policies, which as Kassim and Le Gales argue, may be surprising in times of increasing interdependence between the supranational and domestic levels of government, globalisation and Europeanisation (2010, p. 1). An example of application of the approach to examine EU policies that is particularly worth mentioning here is Bache’s analysis of the emergence, evolution and political effects of the partnership principle in EU cohesion policy (Bache, 2010). The study showed that the official representation of partnership as a technical device conceals a highly political tool bearing particular values. Even though the instrument conflicted with the pre-existing ways of doing things in a number of EU member states with traditions of centralism, echoing Bauer (Bauer, 2002), Bache contends that the notions of ‘doing this together’ and consensual action that this instrument conveys are difficult to resist and oppose. He further demonstrates, that the uses and effects of the partnership differed across the EU member states. In some contexts it promoted a more participatory and consensual policy-making style, however, it has also increased the complexity in governance and created new challenges in terms of democratic accountability and legitimacy.

That being said, Bache’s study is a rare example and there is a shortage of research investigating EU policies, using the policy instruments approach. This study is an attempt to bridge the above-mentioned gap and apply the approach to the study of EU cohesion policy, one of the most important EU policies (both in terms of its share in the community budget and key role in promoting economic growth and more even development) requiring cooperation across all levels of government from the EU to the local, and across different sectors, from public, through non-governmental to private and financial. By doing so, the study will therefore shed some more light on how multi-level governance in EU cohesion policy operates in practice.

3.3. Linking the two approaches to examine the implementation of JESSICA

While the two approaches described above stem from different research traditions and focus on different questions, they are complementary. According to Hood (2007) the sociological approach complements the generic functional policy instruments approach with a more actor-centred perspective revealing the changing interest constellations and the meanings and values that instruments diffuse. Echoing Hood’s claim, this study attempts to combine, for the first time, the insights of both approaches to analyse and evaluate JESSICA, one of the new tools in the EU cohesion policy instrumentarium. It
thus seeks to assess the extent to which JESSICA is fit for its purpose (promoting sustainable urban development in a more efficient way than grant-based support, ‘doing more with less’ in the context of the crisis). At the same time it investigates its effects on the behaviour of the policy actors on the ground.

JESSICA has been deployed only in a limited number of regions across several EU Member States, including Poland, the United Kingdom, Spain, the Baltic countries, or the Netherlands. Out of those, two comparable regions that were early adopters of JESSICA were selected for this study: Wielkopolskie in Poland and Andalusia in Spain (see Figure 2). Both were among JESSICA pioneers (alongside, for instance Greater London, where London Green Fund was set up), signing funding agreements to establish HFs in Spring 2009 and starting implementation phase in Autumn 2010 and Spring 2011, respectively (Bachtler, Mendez, & Oraže, 2013b).

These regions were chosen for comparison because they share a number of characteristics. They were labelled as Convergence Objective in CP for 2007–2013, a category of regions with the GDP per capita below 75% of the average for EU27 and are among the main recipients of the SF. The countries of which they are part have considerable experience in implementation of CP, which has been crucial for the establishment and evolution of their regional development policies and have contributed to institutional changes and policy learning (e.g. Bachtler, Mendez, & Oraže, 2013a; Dąbrowski, 2008).

In the 2007–2013 perspective, Spain and Poland have been allocated, respectively 10% and 19% of the total EU Structural Funds envelope (Álvarez-Martínez, 2014). That said, Andalusia has benefited from CP since Spain’s accession in 1986 and the SF largely contributed to its economic growth and convergence (Cardenet, Delgado, & Lima, 2013). Given Poland’s accession in 2004, Wielkopolska’s tenure in the EU is shorter

Figure 2. JESSICA operations across the EU (as of August 2014). Green numbers indicate the amount of JESSICA Holding Funds managed by the EIB, while the red numbers indicate the number of UDF in a given country.

Source: adapted from EIB (2014).
and its experience with CP less extensive. Both countries are also roughly similar size and both have decentralized administrative systems and regional authorities with important competences in regional policy and management of EU funds, even though there obviously are differences in administrative traditions, political cultures and the powers of the sub-national governments.

This exploratory study is based on qualitative research methods. Semi-structured interviews conducted in both regions under investigation, as well as in Warsaw, Madrid and Brussels, were the main source of data.

The advantage of semi-structured interviews is that they provide in-depth insights on the matter under investigation directly from the key informants. An interview allows for developing a rapport with the respondent and allows for probing on specific issues, which facilitates getting insights on their perceptions, beliefs and strategies, which is hardly possible with quantitative methods or desk research. That said, one of the limitations of this data gathering technique is that it relies on subjective accounts by the interviewees and hence is prone to bias, which may hinder the reliability of data. In order to tackle this issue, secondary sources - such as evaluation and policy reports, project documentation or materials from the websites of the EU and sub-national institutions - were also analysed and provided a means for triangulating the insights from the interviews and improving the reliability. The strategy for selecting interviewees was a further means allowing for limiting the potential biases. Thus, in total 21 interviews were conducted with respondents operating in different sectors, at different scales and having differentiated perspectives, interests and stakes in the JESSICA initiative. They included regional authorities, public and private financial institutions participating in the implementation of JESSICA (EIB, banks, investment companies), municipalities and municipal companies (e.g. dealing with development of technological parks or municipal infrastructure), private investors involved in JESSICA projects, the European Commission as well as arguably more objective independent experts on urban development who were not directly involved in the initiative (e.g. academics, a Member of the European Parliament).

It should also be stressed that the research focused in particular on the municipalities where the pioneering JESSICA projects were being implemented at the time of the fieldwork. Thus in Andalusia, the municipalities included in the study covered Seville, Granada and El Puerto de Santa Maria in Andalusia, while in Wielkopolskie the focus was on Poznań, Jarocin and Leszno (see Table 1).

4. Fit for purpose? JESSICA fulfills its promise only partially

Is JESSICA fit for its purpose of delivering more tangible results in supporting sustainable urban development with the EU structural funds while ‘doing more with less’ in a tough budgetary context of crisis and austerity? The application of Salamon’s criteria for assessing tools of government provides elements of response to this question.

4.1. Effectiveness

Considering effectiveness, since the first JESSICA UDFs were launched in Wielkopolskie in 2010 and in Andalusia in 2011, it may be too early to evaluate the actual results of the initiative. That said, the examination of their track record to date is indicative of poor effectiveness. As of May 2014 there were 31 JESSICA projects being implemented in Wielkopolskie, which was relatively few considering the overall number of EU-funded
Table 1. Examples of JESSICA projects in Wielkopolskie and Andalusia.

<table>
<thead>
<tr>
<th>Location</th>
<th>Project promoter</th>
<th>Description of investment</th>
<th>Form of JESSICA support</th>
<th>Profit generation</th>
<th>Urban development impacts</th>
<th>Form of private involvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poznań, Wielkopolskie</td>
<td>Private company</td>
<td>Reconversion of a derelict industrial building into an office block</td>
<td>Loan</td>
<td>Rental of office space</td>
<td>The investment is located in a deprived area of Poznan city. Offices rented for free for training courses for the local youth; regeneration and maintenance of a public square. Expected positive impact on the image of the district.</td>
<td>Investor and project leader</td>
</tr>
<tr>
<td>Poznań, Wielkopolskie</td>
<td>Municipal company</td>
<td>Extension of a high-tech incubator located in a peripheral and deprived area of the city.</td>
<td>Loan</td>
<td>Rental of office and laboratory space</td>
<td>Expected positive impact on the image of the district and attraction of further investment</td>
<td>Firms as end users of the facilities</td>
</tr>
<tr>
<td>Leszno, Wielkopolskie *</td>
<td>Private company</td>
<td>Regeneration of a derelict urban space in the town centre around the newly built commercial and entertainment centre</td>
<td>Loan</td>
<td>Rental of retail space</td>
<td>Bringing economic and cultural activity to a derelict yet central part of the town; one of the regenerated buildings was to offered to the municipality for a public library/tourist information. Expected positive impact on the image of the district; provision of access to the multimedia centre for the local citizens and of space for workshops organised by non-governmental organisations</td>
<td>Investor and project leader</td>
</tr>
<tr>
<td>Jarocin, Wielkopolskie</td>
<td>Private company</td>
<td>Refurbishment of a disused office block to house a multimedia centre and the local newspaper</td>
<td>Loan</td>
<td>Headquarters of the local newspaper (investor)</td>
<td>Expected positive impact on the image of the district; provision of access to the multimedia centre for the local citizens and of space for workshops organised by non-governmental organisations</td>
<td>Investor, project leader and end user</td>
</tr>
<tr>
<td>Granada, Andalusia</td>
<td>Private company</td>
<td>Construction of a sports and commercial</td>
<td>Loan and equity</td>
<td>Charges on the sport</td>
<td>Reconversion and reopening of a disused zone separating</td>
<td>Two private companies are the main investors (local</td>
</tr>
<tr>
<td>Location</td>
<td>Company</td>
<td>Project Details</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>----------</td>
<td>---------</td>
<td>----------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>El Puerto de Santa Maria, Andalusia</td>
<td>Municipal company</td>
<td>Construction of underground parking lots in the centre of town</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Activities, parking and rental of retail space.

Two densely populated areas of Granada; remedying the parking space shortage; one of the parking floors will be owned by the municipality and used by the local residents; provision of sports facilities to citizens.

Remedying the parking space shortage during the tourism high season. Provision of parking spaces for the local inhabitants; pedestrianisation of the area.

Promoter and sport facilities operator) operating under an administrative concession from the municipality, UDF managing company contributes with equity, and loan.

Private Special Purpose Vehicle - UDF managing company contributes with equity.

*The project was initially approved but later withdrawn by the investor and was not realised.

Source: Author’s own elaboration.
projects in this Convergence region (2173 in the 2007–2013 perspective as of 6.October 2014). But more strikingly, there were only 2 in Andalusia at the time of writing. This is low uptake of JESSICA in the Spanish region is surprising considering the long experience of the region in implementation of EU Structural Funds. However, it is also indicative of the deep negative impacts of the crisis and austerity on the capacity of the Andalusian municipalities and private companies to invest and, arguably, on the suitability of this financial engineering instrument as a tool for supporting urban development, particularly in an extremely difficult economic context.

One of the reasons of the low uptake was insufficient knowledge on the JESSICA framework due to the guidelines being published late and changing over time, which implied uncertainties about their interpretation. As one beneficiary from Andalusia stressed, ‘there is insufficient information about JESSICA and how it works, […] we don’t know enough about how UDF works, what are its aims, strategy, what kinds of projects they want to support and how to prepare those projects.’ Hence the project leaders were forced to improvise and take legal risks; or renounced from applying for JESSICA assistance altogether. Most of the initial bids for funding were rejected as they did not meet the eligibility criteria or, in cases of project passing the initial appraisal, long and painstaking negotiations with the UDF managers ensued to devise the suitable financial engineering arrangements and to adapt the projects to the requirements concerning the social impacts and economic viability. Few of the applicants were capable of preparing projects that would meet the requirements for long-term sustainability of investment and its economic viability. That happened despite a considerable interest in the initiative in both regions, particularly in Andalusia, where hardly any other funding sources were available because the Structural Funds allocation for the 2007–2013 period was depleted and banks were unwilling to lend money to municipalities or any other investment given the severity of the crisis.

Furthermore, one could argue that JESSICA can hardly be effective in promoting sustainable urban development, since it is suitable for a specific kinds of projects – those that generate profit. There can only be a limited number of such projects and such narrowly defined interventions can only be use as a piecemeal solution to address urban development challenges. The latter require much more comprehensive and integrated approaches combining initiatives such as for instance projects focused on enhancing skills of a particular group or investment in social infrastructure that can hardly generate profit. In addition, JESSICA puts a strong emphasis on promoting public-private cooperation, however, both of the regions where JESSICA was pioneered, that have been investigated in this study, have no traditions of public-private partnerships (OECD, 2008, pp. 213–218). This approach to implementing public investment in cities is a novelty in both cases, there are no templates for such cooperation to draw on, which makes the municipalities reluctant to take the risk and engage in such cooperation. In the case of Wielkopolskie, like elsewhere in Poland, cooperation between the public authorities and the private actors is also strongly associated with corruption and shady dealings, which constitutes an additional deterrent.

As indicated by Stanton in his study of the loans as tools of government, loan programmes tend to be difficult to manage by the public authorities, particularly when it comes to ensuring that repayment actually happens, thus they require substantial institutional capacity in order to effective (Stanton, 2002). While the capacity problems were less pronounced in Wielkopolskie, where the UDF was launched painstakingly, however, ultimately it succeeded in appraising projects, there were considerable issues with management capacity in Andalusia. ‘Management of JESSICA is very complex and the
BBVA [manager of one of Andalusia’s UDFs] had a capacity and organisational problem with that and failed to appraise any projects. In spring 2013 the UDF was shut down, while its assets were transferred to the other fund manager – Ahorro Corporación Financiera. Municipalities require considerable guidance and technical assistance in preparing the complicated projects that can be eligible for JESSICA support. The incapacity to provide these services could have been one of the reasons for this failure. In sum, these problems considerably limit the scope for effectiveness of JESSICA as a tool for supporting sustainable urban development.

4.2. Efficiency

Turning to the second criterion, efficiency, JESSICA can be seen in more favourable light. According to Stanton (2002), efficiency of public loan programme is lower when there are well functioning market alternatives to government loans (i.e. well performing private credit market), while it is higher when such a programme bridges a financing gap. The implication of this for JESSICA is it should be efficient because it does bridges a financing gap by offering long-term loans at a competitive interest rate, making them suitable for projects that have a long period of maturation and run the risk of relatively limited profitability. This was particularly true for Andalusia, where the financing gap was pronounced. In order to curb the high level of sub-national debt, the Spanish government introduced exceptional measures in 2011 to limit the use of debt by local authorities, those of them with a debt/current revenue of over 75% were forbidden from borrowing money and have restrictions on refinancing (Dexia & CEMR, 2012). At the same time, the cash-strapped Spanish banks battered by the crisis were reluctant to lend money to public or private sector investment. Thus, JESSICA could ‘offer advantages [when] there is a lack of resources for investment [because] it has its own liquidity [ERDF funding] and the banks don’t finance it, [which] is an important argument in crisis when banks reduce investment’. For instance, in the case of a post-military redevelopment project in Granada, the project promoters struggled to acquire a commercial loan Then luckily for them the opportunity appeared with JESSICA The situation is less severe in Poland, with greater availability of other sources of non-repayable finance from the Structural Funds programmes (sectoral and regional operational programmes) and commercial loans from banks, even though the rapidly rising level of indebtedness of municipalities in Poland generally and also in Wielkopolskie (Dąbrowski & Allain-Dupré, 2012) makes providing match funding for EU-funded investment or obtaining commercial credit more difficult.

Moreover, while JESSICA may lack in effectiveness, it appears to be an efficient tool in a sense that its costs are lower as compared to the predominantly used grant-based assistance for urban investment projects. In fact, the initiative is based on revolving funding, thus money invested in projects is to be paid back eventually and then reused to support further investment. By contrast, grants once paid out never have to be paid back, while there is no guarantee that they would be used sensibly and to support sustainable investment. So does the instrument really allow for ‘doing more with less’? In theory yes, but in practice, while JESSICA may fill a financing gap in context of credit crunch, the applicability of JESSICA to various urban projects is limited and there are major entry barriers for many potential project promoters, therefore ‘doing less but for less’ may be a more accurate expression to characterise JESSICA.
4.3. Equity

As concerns equity, as a criterion for assessing a tool of government, credit is by nature a tool that is not equitable (Stanton, 2002). Only those actors who are likely to repay the loan are those who are the most likely to be able to benefit from it. If one considers equity as redistribution, whereby benefits of an instruments are channelled disproportionately that are the most in need of assistance, JESSICA by design is not equitable as all regions are eligible for the initiative and can set up JESSICA systems. Moreover, all municipalities in regions where JESSICA has been launched are technically eligible for support, but in practice only those municipalities that can prepare an economically viable project that still support sustainable urban development can benefit from it. As the experience of Andalusia showed, in particular, these are few and far in between. If one considers equity as fairness in distribution, that is even distribution of benefits and costs to all eligible actors (e.g. equal access to the tool across a given territory), one can also hardly assess JESSICA as an equitable tool. In theory, in 2007–2013 all EU regions were eligible for JESSICA and could set up UDFs, and also all municipalities could apply for JESSICA support for their projects. In reality, however, only few regions decided to embark on this complicated and technically demanding programme (e.g. only 3 UDFs were set up in Spain and 5 in Poland – see Figure 2 below) and only few municipalities in each of them had enough capacity to take advantage of the revolving funding offered by the UDFs.

4.4. Manageability

Many of the new policy instruments are accepted for their promise of greater efficiency and better effectiveness in achieving the goals of a policy, but one has to consider a risk that implementation of highly technical schemes through a network of actors may be cumbersome and thus are unlikely to deliver the expected results in practice (L. Salamon, 2002). There is thus an argument to make in favour of simple tools. JESSICA, however, is clearly not one of them.

Its effectiveness is limited by its narrow focus and inaccessibility to many potential beneficiaries due to the stringent requirements for preparing bids for support. However, from the point of view of implementation, FEI, like JESSICA, are ‘difficult and complex instruments, which are difficult to manage’. It involves the use of highly technical tools imported from the financial sector into urban development policy and it is managed through a complex network of public authorities at different levels and from different sectors: the European Commission setting the overall framework and guidelines, the regional authorities managing the SF that are used for JESSICA assistance, the financial intermediaries operating at the national and EU levels (EIB) that manage HF and UDFs, municipalities and private investors cooperating on the projects. Ensuring an efficient information flow between those diverse actors and setting up governance structures has proven to be a major challenge.

In both cases studied, as most interviewees indicated, there was a lack of detailed information on the way in which this new policy instrument should be used and the vagueness of the regulation guiding its application. This situation resulted in an information gap along with legal uncertainty. This resulted in protracted negotiations between the Member States and the European Commission on the adaptation of the legal framework to accommodate JESSICA due to uncertainties about the fit of JESSICA with the domestic norms as well as a long process of setting up the appropriate administrative
set up at the regional level, issues that were flagged up by interviewees in both regions studied. Subsequently, putting into practice this machinery that brings together, for the first time, the sub-national authorities with supranational and domestic financial institutions required a substantial learning effort from those different actors that typically were not used to working together and operated according to different logics and rules. Decision-making in this some cross-sectoral and somewhat experimental set up is bound to be complex, riddled with tensions stemming from the lack of mutual understanding and divergence of interests and approaches (Koppenjan & Enserink, 2009).

4.5. Legitimacy and political feasibility

Finally, following Salamon’s approach, one should consider legitimacy and political feasibility as a criterion for assessment of a policy instrument. Generally, credit programmes tend to be attractive for policy-makers as they offer an appearance of a business-like activity and the revolving nature of the public support offered is something that is easy to ‘sell’ to the voters as it creates an impression that public money is not wasted (Stanton, 2002). This is particularly relevant in times of austerity and crisis, like the present ones. Thus their political feasibility tends to be high and they can allow for enhancing the legitimacy of the government in the eyes of the public, by creating an impression that it is spending public money in a careful and wise manner.

Turning to JESSICA, it is difficult to assess its legitimacy and political feasibility. One can hardly consider it as an initiative that will allow for winning political support, as public awareness of this tool is very limited, due to its technical character and rather sporadic use to date. However, at least on a rhetoric level, it can be seen as a tool enhancing legitimacy of the EU in the eyes of the general public. From a political feasibility point of view, it can be seen as a winning strategy to promote such an instrument in the current economic climate, as evidenced by the European Commission’s plans to extend the application of FEI to a wider array of EU policies and programmes. But again, one should stress that the most likely very few citizens know about this programme at all, unlike the grant-based Structural Funds programmes which are highly visible in the recipient regions and municipalities.

Moreover, there is a widespread reluctance towards this instrument among the national government in the countries being the main beneficiaries of the EU Structural Funds and, as evidenced by the protracted negotiations on the FEI for the 2014–2020 period and the opinions about JESSICA raised by the interviewees in Andalusia and Wielkopolskie, among the municipalities. From the point of view of national governments that have an (electoral) interest in spending all the allocated EU funds, JESSICA is not particularly attractive as it is difficult to manage and there is a risk of absorption problem if disbursement of funds is slow.

Similarly, the municipalities are bound to have a strong preference from grant-based assistance which not only is much easier to obtain but also does not have to be paid back, which makes it much more attractive than the revolving assistance offered as part of JESSICA. Being used to working with EU grants, they are reluctant about revolving instruments that are more difficult to use and less financially attractive. As the interviewees argued, municipalities ‘are afraid of this change from grants to loans’ and ‘tend to consider JESSICA as a last resort for financing urban investment when no grants are available and they will always prefer non-repayable assistance, especially since many of them are heavily indebted and cannot take additional loans.'
4.6. An adequate tool for supporting urban development?

When assessing a policy programme ‘the key is to fit the characteristics of the tool to the nature of the task’ (Salamon, 1989, p. 18). JESSICA does offer some advantages in terms of efficiency and legitimacy. However, it is probably not an adequate and certainly not a sufficient tool for supporting sustainable urban development, which requires much more integrated and comprehensive actions. In addition, JESSICA presents serious problems in terms of effectiveness and manageability. It may also reflect the current Zeitgeist of austerity and ‘doing more with less’, but in reality its application remains limited and the European Commission has been struggling to muster political support for such instruments from some of the EU member states and the sub-national authorities interested in preserving the pre-existing system of grant-based non-repayable assistance.

That being said, a closer look at the effects of JESSICA on the actors involved in its implementation in the regions studied here, invites a more nuanced and less critical view on this new instrument. As will be demonstrated in the following section, JESSICA can in fact play a role in changing the practices and mind-sets of the regional and local authorities involved, which in turn could create scope for more sustainable and efficient use of EU funding more generally.

5. A reform device? Analysing the impacts of JESSICA on the behaviour of actors at the sub-national level

JESSICA illustrates well the way in which policy instruments tend to blend their technical and social aspects, as conceptualised by Lascoumes and Le Gales (2007). As discussed above, it is a technocratic instrument, that is complex and veiled in a highly technical language; however, it also conveys a simple and strong message that has a wide appeal – doing investment together between the actors from different sectors and ‘doing more with less’ to promote urban development. What is the impact of this message and of the experience in JESSICA implementation on the behaviour of the actors involved? This section will provide elements of response to this question drawing on the cases of Andalusia and Wielkopolskie.

5.1. Learning through collaboration

JESSICA prompts the regional and local authorities to engage in new kinds of collaboration. The partnerships formed in Andalusia and Wielkopolskie - in the management of UDFs and in implementation of projects that they supported - exposed the regional and local authorities to a new approach that emphasises careful analysis of economic viability and the expected returns, while combining public and private efforts to support public investment.

The regional authorities in Andalusia and Wielkopolskie engaged in new kinds of collaboration with the EIB as they delegated to it the management of JESSICA Holding Funds (HF). This solution, allowing for bringing in the financial expertise of the EIB, was recommended to regions with limited experience in financial engineering (Kreuz & Nadler, 2011), such as those studied here. A further new type of partnership for the two regional authorities was that with banking or investment institutions managing their UDFs. In the case of Wielkopolskie this task was delegated to a state-owned Bank Gospodarstwa Krajowego (BGK), an institution supporting inter alia regional and urban
development in Poland. Thus, for the first time in Poland, a bank was directly involved in the implementation of the region’s development policy and management of EU funds as part of its Regional Operational Programme.\footnote{JESSICA also pushed the Junta of Andalusia (regional authority) to engage in collaboration with financial institutions for the first time, which required learning and experimentation. The region opted for setting up two UDFs: BBVA JESSICA, focused on loans and run by a major commercial bank BBVA; and AC JESSICA Andalucía supporting urban investment by both equity and loans, run by an investment company, Ahorro Corporación Financiera.}

On the project level, the local authorities in both regions had very limited experience in public-private cooperation and JESSICA encouraged forming unprecedented partnerships between the municipalities and private investors. Such collaboration is highly unpopular in Wielkopolskie (and Poland as a whole) due to lack of an adequate legal framework and the persistence of mistrust and mutual reluctance between the private and public actors. Likewise, in Andalusia, despite the long-standing traditions of dialogue with the representatives of the industry, ‘public-private cooperation is not yet developed’ and the regional or local authorities tend to implement investment projects without the involvement of non-state actors.\footnote{Hence in both cases, JESSICA provided a framework and financial incentives for the municipalities to experiment with public-private collaboration, which, however, took different forms in Wielkopolskie and Andalusia.}

In the former, while some projects were lead by municipal companies (such one involving construction of a high tech incubator on the outskirts of Poznań), many of the projects benefitting from JESSICA assistance were lead by private investors. Examples of such private-lead projects, albeit developed in consultation with the municipalities, included for instance reconversion of an abandoned warehouse into an office space within in a poorer district of Poznań initiated by a local construction company\footnote{Such new public-private cooperation can entail potentially beneficial effects for the mode of operation of the sub-national authorities and their approaches to urban investment. Municipalities and regional authorities were exposed to a different approach for supporting economic development in cities, which entailed a certain ‘culture shock’.} or reconversion of a decaying old office building into a multimedia centre and workshop space for non-governmental organisations in Jarocin initiated by the local newspaper. In such cases cooperation with a municipality was motivated by the possibility of gaining access to low-interest and long-term financing as part of JESSICA, more advantageous than commercial loans.\footnote{In practice, this collaboration involved negotiating with the municipalities to include the investment in the urban development plan, drawing on the local officials’ knowledge to develop the social component of the project (i.e. the contribution to solving a particular urban development problem) or ensuring the contribution in kind by the municipality, such as provision of real estate for the investment.}

The projects appraised in Andalusia at the time of data collection, tended to involve equity participation of Ahorro Corporación Financiera, the investment company managing the UDF AC JESSICA, working closely with the municipalities and their partner companies on the development and management of the investment.\footnote{The projects appraised in Andalusia at the time of data collection, tended to involve equity participation of Ahorro Corporación Financiera, the investment company managing the UDF AC JESSICA, working closely with the municipalities and their partner companies on the development and management of the investment. One form of such collaboration was the establishment of a so-called special support vehicle, i.e. creation of a new entity with joint equity participation of both partners, as was the case with the construction of parking lots in El Puerto de Santa Maria for instance. Another form of cooperation with private firms was administrative concession, as in the case of the project involving redevelopment of a military zone in Granada.}
and a transfer of know-how on financial engineering, assessment of viability and returns on investment. These learning processes could in turn favour, more strategic and efficient use of EU funds to support urban projects, as compared to the use of the conventional EU grant-based assistance. Such a shift would indeed be very positive considering the criticism of CP on the grounds of contested effectiveness and lack of strategic thinking in the use of EU funds.

JESSICA also provided incentives for ‘thawing the ice’ and mutual learning between the municipalities and private investors and engaging, often for the first time, in cooperation. This collaboration was conducive to seeking complementarities and identifying common interests. The local governments also became acquainted with the private sector’s approach privileging economic sustainability and viability of investment, factors which previously were often neglected in decision-making on municipal investments. The learning process was reciprocal though, as the private investors participating in JESSICA projects were in turn pushed to consider not only profits but also social and developmental goals, for which they had to rely on the expertise of municipalities.

Lastly, JESSICA, by pushing the municipalities to collaborate with private investors created a stimulus to search for new ideas for regeneration of urban areas facing decay or social challenges. Thus, the revolving character of the assistance forced the municipalities to think beyond their usual ‘ways of doing things’ and devise urban projects that could generate profit, while still contributing to solving the economic and social problems of specific urban areas.

These potentially positive effects of JESSICA, however, remained limited to a relatively narrow group of municipalities due to a score of obstacles for a more widespread take up of this for of EU funding. One of them is the ‘clash of mind-sets’ and divergent interests of the public and the private actors supposed to collaborate as part of the projects, reflecting the generally encountered difficulties with public-private partnerships in urban projects (Koppenjan & Enserink, 2009). The private investors’ approach, privileging flexibility, economic self-interest and disregard for social needs, which tend to be considered instrumentally as a means to get access to funding schemes such as JESSICA and enhance the company’s image in the process. As argued before, JESSICA encourages seeking complementarities between the municipalities and private investors, but as reported by several interviewees and previous studies (Michie & Wishlade, 2012), the success of such endeavour cannot be taken for granted and tensions are not uncommon.

In Wielkopolskie, interviewees stressed that the complex bureaucratic procedures associated with the SF, requiring more long-term planning and organising tendering procedures, were generally a factor discouraging private investors from engaging in JESSICA. In cases where they decided to use JESSICA – primarily to get access to a low-interest loan with a favourable repayment schedule – negotiating the terms of the project with the municipality tended to be time-consuming, due to the different interest and ‘ways of doing things’ of both actors. The civil servants in the municipalities are accustomed to ‘red tape’ and by contrast to private investors – attach more importance to observing the stringent procedures regulating the SF implementation, not least to avoid potential trouble in case of an audit by the European Commission. In case of one – as an interviewee reported – these differences resulted in tensions, which nearly led to the private investor abandoning the project and were ultimately resolved with mediation by the mayor of Poznań and BGK (UDF manager). In the case of the very first and hyped JESSICA project considered in Wielkopolskie, construction of a shopping mall in derelict part of the centre of Leszno, the private investor, however, did end...
up pulling out of the scheme and abandoning the project, allegedly due to the lengthy procedures and bureaucratic barriers.43

In Andalusia, similar problems were also reported, stemming from different interests and mind-sets of the public and private actors involved in JESSICA and lack of experience cross-sectoral cooperation.44 Even though interviewees from both sectors eagerly stressed the benefits and synergies arising from their collaboration, they also tended to have diverging views on how to use JESSICA. From the perspective of the regional authority, it was important to specify the precise domains for which JESSICA support could be allocated, to make sure that a broad range of municipalities could potentially use it. Conversely, the managers of AC JESSICA Andalucía favoured a more flexible approach to put forward efficiency as the key criterion for project appraisal.45 Moreover, similarly as in Wielkopolskie, despite the positive rhetoric on public-private cooperation, de facto both municipalities and private investors remained reluctant to collaborate as part of JESSICA projects.46 Alongside the economic crisis and dire budgetary condition of Andalusian municipalities, this was one of the factors contributing to the low uptake of the scheme in the region.

A further challenge was that, in both of the regions studied, the lack of experience and lack of clear rules for public-private cooperation in urban development projects entailed uncertainty for the prospective project leaders.47 In such a context it is ‘difficult to devise contracts between public and private actors where there are EU funds, public funds and private management involved, as […] there are no procedural templates for that.’48

5.2. New incentives promoting a change in the approach to public investment in urban areas

The rationale behind the introduction of FEI into CP ‘was to stimulate a business-like mind-set among the policy actors and beneficiaries, to put emphasis on return on investment’, in other words to shape ‘perceptions and awareness’ among beneficiaries that EU funding needs to be used more efficiently.49 How do these assumptions compare with the reality? Given that this research was carried out during an early phase of implementation of JESSICA, it is not possible to evaluate its effects in terms of the quality and sustainability of the projects that were supported as part of this scheme in comparison to the those benefiting from non-repayable EU-funding. However, the testimonies of the interviewees in Andalusia and Wielkopolskie provided evidence of a shift in the approach to investment among the (few) municipalities that benefited from JESSICA.

The grants as part of CP are relatively easy to acquire and, unfortunately, not always deployed to finance investment that is sustainable or grounded in a strategic vision of the development of the targeted areas (see e.g. Dąbrowski, 2014). The situation with revolving assistance is different as such form of support provides a very different set of incentives to beneficiaries: since money has to be paid back, it is vital to plan the investment more carefully, considering particularly its longer-term economic viability and sustainability. This can be well illustrated by the changing approach by the mayor of El Puerto de Santa María in Andalusia where JESSICA supported investment in two parking lots. The mayor’s initial preference was for building much bigger parking facilities than what was finally decided, in order to accommodate the highest demand for parking space in the town centre during the tourist high season. That said, as a result of negotiations with UDF manager, who brought in equity and financial expertise, the project ended up being scaled down to fit the average demand for parking space throughout
the year, which involved cutting the cost of the investment by a third and made it economically sustainable.  

In sum, in both regions studied here, JESSICA could usher in a ‘cultural change’ in the approach to EU cohesion policy and its funding schemes, which would no longer be seen by the local officials as a source of easily accessible funding. JESSICA incentivised new kinds of investment in economically sustainable urban projects delivered in cooperation between the municipalities and private actors. What is more, JESSICA calls for ‘more reflection on the design of the project, its purpose, its longer term costs, sustainability and capacity to earn money, while at the same time addressing developmental goals’. In the words of an interviewee, ‘the revolving character JESSICA […] pushes for a shift away from the culture of [dependence on] subsidies’ and can ‘trigger a cultural change, but this is also a challenge, because FEI are still little known and they are difficult to implement.’ It can thus be argued that the instrument has the potential to contribute to a change of attitudes towards EU cohesion policy and public investment more generally, albeit only among the limited number of municipalities that participated in the scheme. Without eliminating the barriers to a more widespread uptake of this instrument by regions and municipalities, the breadth of its influence can only remain limited.

6. Concluding remarks

This study used the policy instruments approach to evaluate JESSICA as a new tool for promoting sustainable urban development as part of EU cohesion policy, drawing on qualitative evidence from two regions – Wielkopolskie and Andalusia – where it was first deployed. The study contributes to the literature in two ways. First, it combines the insights from two stands of the policy instruments literature – the functional strand, focusing on the extent to which policy tools are adequate to their purpose, and the sociological strand, emphasising the role of policy instruments as institutions structuring the actions of agents. Second, it applies this conceptual framework to the study of a major EU policy, which is seldom done in the literature. More specifically, for the first time, this study sheds light on the properties and effects of one of the more innovative and under-researched instruments in EU cohesion policy, thus addressing an important research gap.

The assessment of JESSICA using the functional approach to the study of policy instruments highlighted a range of flaws from which this new tool suffers. While JESSICA may tick the boxes when it comes to ensuring greater efficiency as the previously predominant grants from the EU Structural Funds, it is unlikely to be effective and at best should be considered as an addition to other instruments promoting sustainable urban development. This is because this investment instrument, being based on a revolving funding mechanism, is only suitable for a limited range of projects that (1) can generate profit while catering to the development needs of particular urban areas; and (2) require considerable expertise and administrative capacity to meet the stringent criteria for eligibility, stressing economic viability and long-term returns on investment. Consequently, in the 2007–2013 period, JESSICA has been used sparsely to support only a handful of projects, because only few municipalities or other potential project promoters disposed of sufficient skills and capacity to prepare suitable projects. In addition, the effectiveness of this is hampered by the strong reluctance towards it among the present beneficiaries of EU funding accustomed to working with grants, which not only are easier to acquire but critically do not require a repayment of assistance. As an
interviewee put this, ‘there is huge resistance [to FEI], public and private actors alike will always prefer grants rather than loans,’\textsuperscript{54} which was largely confirmed by the experience of Wielkopolskie where no projects were appraised during the first two years after the launch of JESSICA in April 2009 because Structural Funds’ grants were still available.\textsuperscript{55}

Nevertheless, if one considers the actual effects of participation in the JESSICA initiative on the sub-national authorities, JESSICA presents itself in a more favourable light as a potentially transformative instrument. In fact, as was the case with previous major innovative instruments in EU cohesion policy like the partnership principle, JESSICA is also an instrument promoting learning. It facilitates a transfer of knowledge and practices across sectoral boundaries, by forcing the actors – who previously had little in common – to learn to collaborate and seek synergies to promote urban development. But more importantly, JESSICA also promoted an (arguably still small scale but nonetheless significant) shift away from the reliance on EU subsidies where assistance is taken for granted. Thus it can be considered as a device for supporting change in the approach to EU cohesion policy and more generally to supporting place-based economic development. In that sense, JESSICA’s role in its first round of implementation could be read as a socialising device preparing the policy actors on the ground for a more strategic and sustainable use of EU funding as well as the more widespread use of financial engineering after 2013. However, due to the significant entry barriers and difficulties in appraising projects, more pronounced in the case of Andalusia, its influence remained restrained to a handful of municipalities where projects were actually implemented.

In the recently launched 2014–2020 EU cohesion policy programming period the application of financial engineering has been extended to enable supporting projects in any domain eligible for structural funding.\textsuperscript{56} This mainstreaming of revolving assistance, however, invites caution if not pessimism. Hence, the above setbacks and problems observed in the case of JESSICA are very likely to be reproduced in other Member States and other kinds of programmes using financial engineering tools. The limitations and challenges associated with these tools need to be recognised by the EU and domestic policy-makers. Moreover, they need to do considerably more to support building administrative capacity, diffuse knowledge and good practices and provide technical assistance, especially at the sub-national level. Failing that they face risk of low absorption and, ultimately, failure of these innovative instruments.

Notes

2. For a synthetic and critical overview of the emergence and different strands of the instruments approach see Hood, 2007.
7. Interview, BGK, Warsaw, 04/07/2012; Interview, Beneficiary, Andalusia, 11/04/2012; interview, MEP, 24/04/2012.
8. Interview, BGK, Warsaw, 04/07/2012; interview, Expert, Andalusia, 10/04/2012; interview, Beneficiary, Andalusia, 12/04/2013.
10. Interview, Ahorro Corporación Financiera, Madrid 18/04/2013.
11. Ibid.
12. Ibid.
13. Interview, Interview, MEP, 24/04/2012.
15. Interview, MEP, Brussels, 24/04/2012.
16. Interview, BGK, Warsaw, 04/07/2012.
17. Interview, DG Regio, 23/04/2012; interview, MEP, 24/04/2012; interview, Ministry of
   Economy, Madrid, 19/04/2013.
18. Interview, MEP, Brussels, 24/04/2012.
19. Ibid.
20. Interview, Expert, Warsaw, 04/07/2012. Similar comments in interviews with MEP, 24/04/
   2012; Beneficiary, Wielkopolskie, 03/07/2012; BGK, Warsaw, 04/07/2012; Ministry of
   Economy, Madrid, 19/04/2013; Beneficiaries, Andalusia, 11–12/04/2012.
22. Interview, Wielkopolskie Marshal Office, Poznań, 02/07/2012.
25. Interview, Expert, Warsaw, 04/07/2012; interview, IDAE, Madrid, 18/04/2013; interview,
   Beneficiary, Andalusia, 12/04/2013.
26. Interview, BGK, Warsaw, 04/07/2012.
27. In Wielkopolskie the basic interest rate for JESSICA loans was 4.75%, but it could be low-
   ered to 2.75% if the project scored high on its social component.
28. Interview, Beneficiary, Andalusia, 12/04/2013; interview Ahorro Corporación Financiera,
   Madrid 18/04/2013.
30. Interview, MRD, Warsaw, 04/07/2012.
31. Interview, DG Regio, 23/04/2012.
32. Interview, MRD, Warsaw, 04/07/2012.
33. Interview, Beneficiary, Wielkopolskie, 03/07/2012; interview, Expert, Warsaw, 04/07/2012.
34. Interview, Beneficiary, Andalusia, 12/04/2013.
35. Interview, Expert, Andalusia, 15/04/2013.
36. Interview, DG Regio, 23/04/2012.
37. Interview, IDAE, Madrid, 18/04/2013; interview, Ministry of Economy, Madrid, 19/04/2013;
   Interview, Expert, Warsaw, 04/07/2012.
38. Interview, Expert, Warsaw, 04/07/2012.
39. Interview, Expert, Warsaw, 04/07/2012; interview, Beneficiary, Wielkopolskie, 05/07/2012;
   interview, Beneficiary, Andalusia, 11/04/2012.
40. Interview, Beneficiary, Wielkopolskie, 05/07/2012.
41. Interview, Expert, Warsaw, 04/07/2012.
42. The weak public-private cooperation was also stressed as a challenge by the JESSICA Les-
   sons Learned Working Group, see: http://ec.europa.eu/regional_policy/financed/oraments/
   jessica_network_en.cfm?#1 [Accessed 10/07/2013].
43. Source: http://wyborcza.biz/biznes/1,100888,16211937,JESSICA_pozyczka_aby_poprawic_ja
   kosc_miast.htm
44. Interview, Beneficiary, Andalusia, 12/04/2012; interview, Ministry of Economy, Madrid, 19/
   04/2013; interview, IDAE, Madrid, 18/04/2013.
45. Interview, Ahorro Corporación Financiera, Madrid 18/04/2013.
46. Interview, Beneficiary, Andalusia, 11/04/2012.
47. Interview, Beneficiary, Andalusia, 11/04/2012; Interview, BGK, Warsaw, 04/07/2012; interview,
   MRD, Warsaw, 04/07/2012.
49. MEP, Brussels, 24/04/2012.
50. Interview, Ahorro Corporación Financiera, Madrid, 18/04/2013.
52. Interview, Beneficiary, Andalusia, 12/04/2013.
53. Interview, Ministry of Economy, Madrid, 19/04/2014.
54. Interview, MEP, Brussels, 24/04/2012.
55. Source: http://wyborcza.biz/biznes/1,100888,16211937,JESSICA_pozyczka_aby_poprawic_ja

References


