



Bridging the Urban Investment Gap: Innovative Financial Schemes and the Lessons from UIA Cities

Karun Gelibolyan, Senior Consultant
Eileen Crowley

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Outline



- I. Innovative financial schemes: Overview of the concept
- II. Presentation of the study
- III. Key findings and recommendations





I. Innovative financial schemes (IFS)

Urban challenges faced by cities

- European cities are confronted with escalating socioeconomic and environmental challenges while grappling with a significant finance gap to address these issues.
- Cities face constrained public funding and limited private sector participation.
- This is making it difficult for cities to meet investment needs, creating a significant investment gap
- Growing demand for alternative financing approaches.
- **Innovative financial schemes (IFS)** are emerging as a key solution for cities to bridge these gaps.



Definition of IFS

Innovative financial schemes (IFS) refer to creative or novel approaches used by cities and urban practitioners to **mobilise, distribute and/or govern** the use of funds for implementing urban development projects. These schemes are characterised by their integration of diverse financial sources and their emphasis on collaboration and partnerships among urban development partners.

Mobilise

Mobilisation of the funds relates to identifying funding sources, attracting investments, fundraising and financing.

Distribute

Distribution of the funds refer to budgeting and funds allocation methods.

Govern

Governance of the use of the funds relates to legal, regulatory and managerial structures and methods supporting the distribution of funds.





IFSs identified

Bonds	Classical Funding Scheme Targeting Innovation	Community Land Trust (CLT)	Crowdfunding	Green Mortgages
Incentive Mechanisms	Innovative Procurement (Green and Circular)	Investment Funds	Local or virtual currencies	Microfinance
Participatory Budgeting	Performance-based Contracts	Public-Private-Partnerships (PPPs)	Revolving Funds	Voluntary Contributions





II. Presentation of the Study

Rationale of the study

- **UIA projects have tested new delivery mechanisms for sustainable urban development, including IFSs** to make tested activities financially more sustainable or to upscale these once successfully tested.
- However, it remains unclear in what extent/which of these financing mechanisms are **enablers of innovation in cities**.

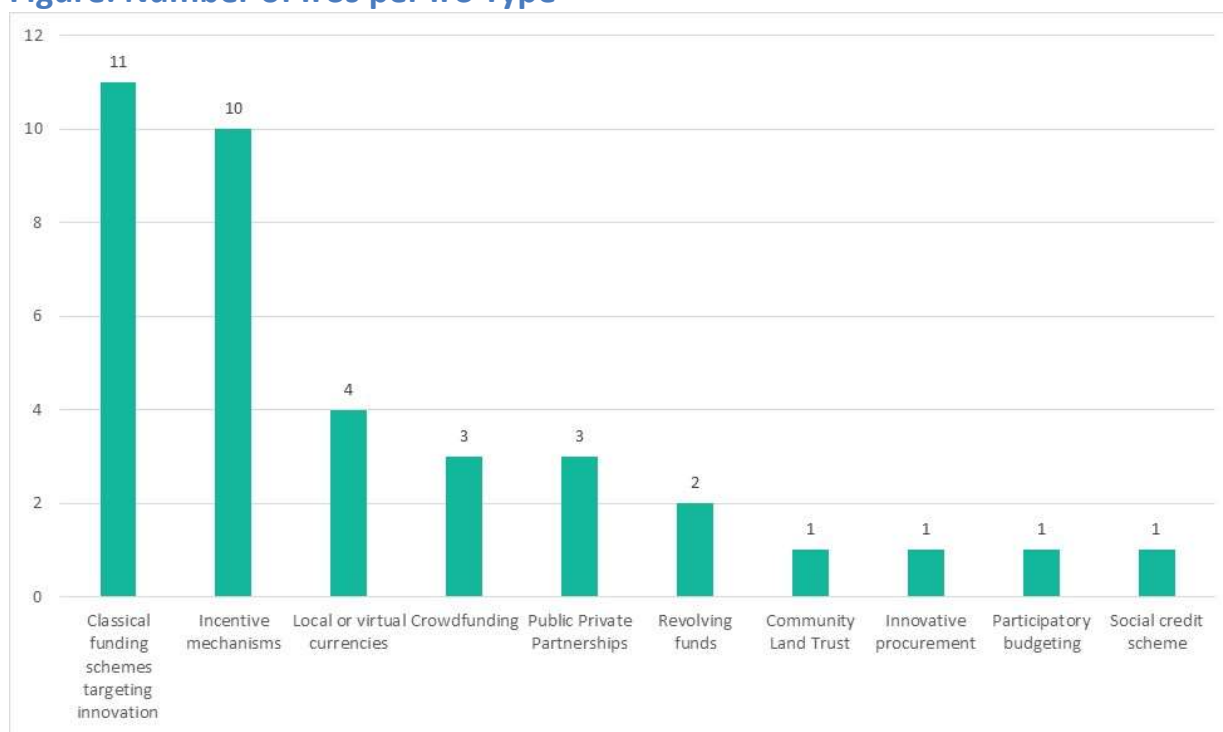
Overall aim of the study

- Making an **inventory of IFS tested within the UIA**
- Clarifying **how these IFS contributed to the projects** reaching their objectives and in which policy area
- Assessing the **success factors and obstacles** that they overcame
- To **share lessons** with their peers



IFSs Identified in UIA Projects

Figure: Number of IFSs per IFS Type



Note: Some UIA projects contain multiple IFS

- Conducted a comprehensive review of materials from all **86 UIA projects**.
- Identified **37 innovative financial schemes** across the different UIA projects. Some projects implemented multiple IFS.
- **10 distinct types** of innovative financial schemes.



Case study selection

- Following the **screening** of the 86 UIA projects for IFSs, a **survey** was disseminated to 23 UIA projects
- It was completed by representatives of 18 UIA projects
- The **aim of the survey** was to:
 - **gather general data** about the experience of UIA projects in developing and implementing IFSs (*e.g. enabling conditions, obstacles, etc.*)
 - **collect information to inform the case study selection** (*e.g. whether or not they believe the IFSs were successful in meeting their objectives or in helping the project reach its goals; whether there are any plans to continue using the IFSs; whether they can be scaled-up or replicated*)
- On the basis of the survey responses, while trying to ensure an adequate geographical coverage and good representation of IFSs and UIA topics, **12 UIA projects were selected**



Limitations

- Rating of “level of success” proved quite arbitrary
- All respondents indicated that their projects were scalable and replicable
- Challenging to ensure good geographical balance as most projects were from a few countries to begin with
- Selecting a project to ensure good geographical coverage meant deprioritising another more interesting one



Overview of Case Studies

United Kingdom

IGNITION (Manchester)
UIA Topic: Climate adaptation
IFS: Incentive mechanism

Belgium

CALICO (Brussels)
UIA Topic: Housing
IFS: Community Land Trust (CLT)

ICCARus (Ghent)
UIA Topic: Housing
IFS: Revolving Fund

Antwerp Circular South (Antwerp)
UIA Topic: Circular Economy
IFS: Local or Virtual Currency & Revolving Fund

Spain

MILMA (Fuenlabrada)
UIA Topic: Integration of migrants and refugees
IFS: Public-Private-Partnership

VILAWATT (Viladecans)
UIA Topic: Energy transition
IFS: Local or virtual currency

Netherlands

WESH – We.Service.Heerlen (Heerlen)
UIA Topic: Digital transition
IFS: Local or virtual currency & Incentive mechanism

BRIDGE - Building the Right Investments for Delivering a Growing Economy (Rotterdam)
UIA Topic: Jobs and skills in the local economy
IFS: Social credit scheme & Innovative procurement

Latvia

NextGen Microcities (Ventspils & Valmiera)
UIA Topic: Jobs and skills in the local economy
IFS: Classical funding scheme targeting innovation

Italy

Prato Urban Jungle (Prato)
UIA Topic: Sustainable use of land and nature-based solutions
IFS: Incentive mechanism & Crowdfunding

ToNite (Turin)
UIA Topic: Urban security
IFS: Classical funding scheme targeting innovation

WISH MI (Milan)
UIA Topic: Urban poverty
IFS: Incentive mechanism



Examples of IFS in UIA projects



Local and virtual currencies

- The aim of local currencies is to support the local economy and they are often issued by a local authority to be used in a defined geographically limited area with participating companies and associations able to receive this currency.
- Contrary to local currencies, virtual or digital currencies often use cryptographic functions that allow them to be decentralised and not issued by a traditional entity, such as a central bank or a local government. However, virtual currencies can also be used as local currencies to provide better security features using technology, such as blockchain.



Antwerp Circular South



- The project developed a digital currency (Circules), a block-chain based reward and exchange system.
- Residents could earn the digital currency by performing well on individual and group challenges, encouraging sustainable behaviour (reducing waste, water and energy use).
- Circules could be used at the City of Antwerp's facilities (e.g. swimming pool, cultural events, Ecohouse). They could be exchanged for using these facilities or re-inserted into the reward system.



Examples of IFS in UIA projects

Incentive Mechanism

- These mechanisms refer to financial and non-financial incentives designed to encourage specific behaviours or actions that contribute to desired outcomes.
- In the context of innovative finance, incentive mechanisms are used to stimulate and support the development, adoption, and scaling of innovative solutions, products, or services that address social, environmental, or economic challenges.

WISH MI, Milan

- WISH MI introduced an incentive mechanism in the form of a digital voucher scheme.
- Set up to facilitate minors' access to well-being services in Milan by providing families with virtual credits that could be used to access activities and services.
- The vouchers were aimed at children from low-income families and worked in two steps:
 1. Families with minors living in Milan and with an ISEE (Equivalent Economic Situation Indicator) below €27,000 could apply for digital vouchers.
 2. Once granted, vouchers could be spent on activities offered by profit and non-profit organisations. Vouchers had to be used by a specified deadline, fully or partially covering the cost of chosen activities.



Examples of IFS in UIA projects



Crowdfunding

- **Crowdfunding** investments offer lending or reward-based models, allowing investors to support projects of their choice.
- Municipalities can leverage community participation, retain control over returns, and diversify financing between traditional methods and crowdfunding.

PUJ, Prato

- Launched a digital platform, allowing citizens, local businesses and associations to directly contribute to the reforestation and maintenance of the city's green spaces.
- The platform provides information on how to collaborate with the Municipality, allowing individuals to support urban forestry interventions through donations or by proposing new forestry initiatives themselves.





Examples of IFS in UIA projects

Revolving Fund

- **Revolving funds** are a type of loan that create a continuous cycle of investment.
- Entities from the public or private sector may lend money to fund the initial investment of the projects and use the payback of the loan to reinvest into future projects.
- It is usually used for individuals who may not have access to loans from traditional financial institutions.

ICCARus, Ghent

- A revolving fund was set-up to have a continuous system of house renovations for residents in bad living conditions.
- Residents looking to renovate their houses could apply to receive up to 30,000 EUR, which could be used to pay for the renovations, as well as the social and technical counselling around the renovations.
- Once the houses are alienated (sold, rented, or when the owner dies), the money used for the renovation of the house goes back into the revolving fund to renovate other houses in the future.





Examples of IFS in UIA projects

Innovative Procurement

- Innovation in procurement refers to leveraging the purchasing power of cities to stimulate the development of new and innovative solutions, products, or services that address specific urban needs or challenges.
- This involves rethinking traditional procurement processes and adopting methods that actively encourage and reward innovation.
- By doing so, cities can increase the positive impact on their social, economic and environmental objectives.

BRIDGE, Rotterdam

- By law in the Netherlands, all service providers procured by the municipality with a contract value of €50,000 or more, have a contractual obligation of social return, amounting to (on average) 5% of the total contract value.
- This facilitated the establishment of a corresponding social return on investment (SROI) fund, which consisted of the fines collected from contractors who did not comply with their social obligation.





Examples of IFS in UIA projects

Social Impact Credit Schemes

- Innovative financing schemes designed to incentivise and reward actions or investments that generate positive social or environmental outcomes.
- These schemes often involve a system of credits or tokens that can be earned, traded, or used as financial support for initiatives with measurable social benefits.

BRIDGE, Rotterdam

- Developed a 'social coin' called Rikx (Rotterdam Impact Keys) to fund activities that support people to gain employment upon leaving education.
- The scheme enables businesses to "purchase" social impact, i.e. to fund social entrepreneurs and to enable them to meet social return obligations simultaneously.
- If an organisation or social enterprise makes impact e.g. by developing the capacity of young people to enter employment and if a price can be placed on that impact, then it can be sold on the marketplace.





Examples of IFS in UIA projects

Community Land Trust (CLT)

- A **Community Land Trust (CLT)** is a not-for-profit organisation that owns and manages land on behalf of a community.
- By holding land in trust for the community and separating land ownership from property ownership, CLTs can mitigate the impact of increasing real estate prices and rents
- This IFS is also innovative regarding its governance. CLT boards are composed of homeowners, local community members, and representatives from local authorities, each holding equal decision-making power to promote balanced and inclusive governance.

CALICO, Brussels

- Through the support of the UIA, the city of Brussels developed a CLT.
- It resulted in the construction of 34 housing units.





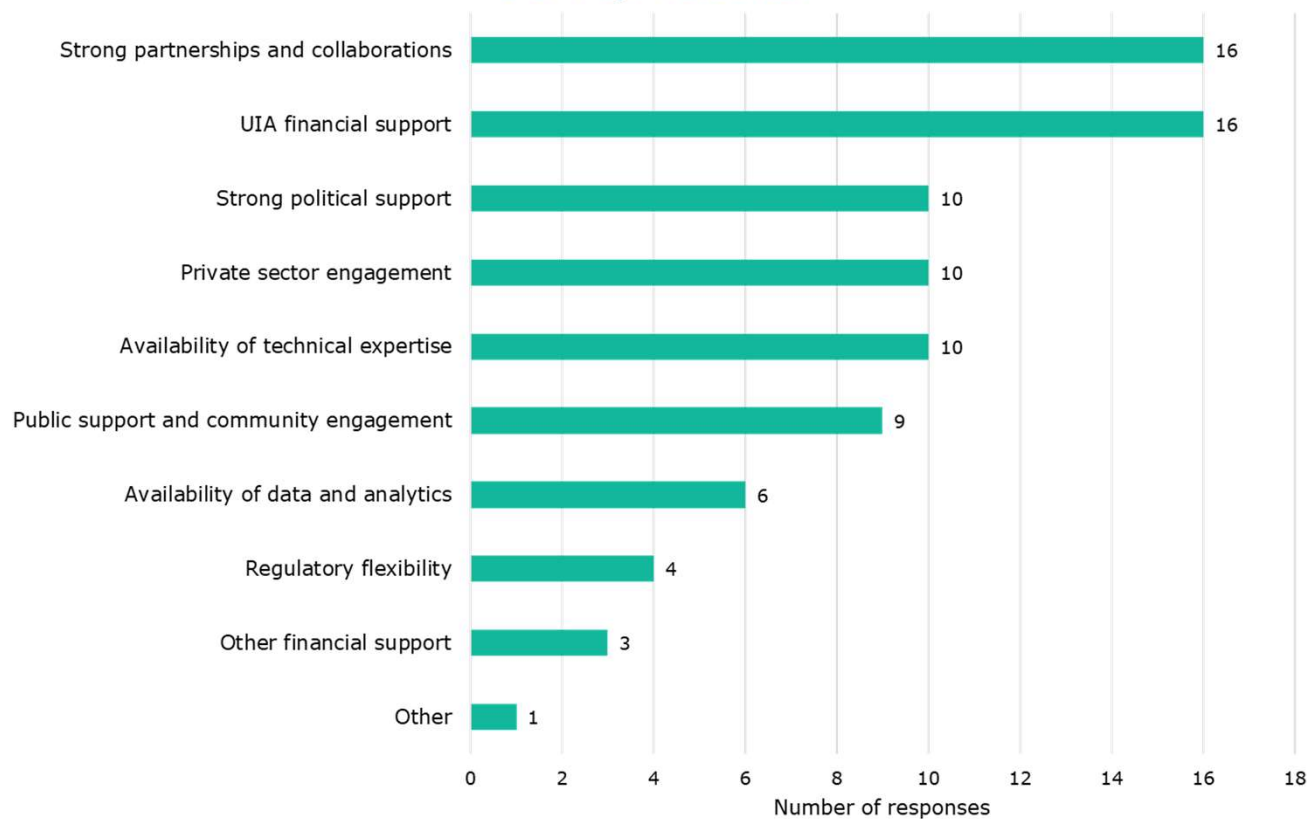
III. Key Findings and Recommendations





Enabling Factors

Survey Results



Note: 19 respondents replied to the question: "What were the primary enablers that facilitated the successful implementation of the IFS(s) in your project?". Respondents could select multiple options.





Enabling Factors

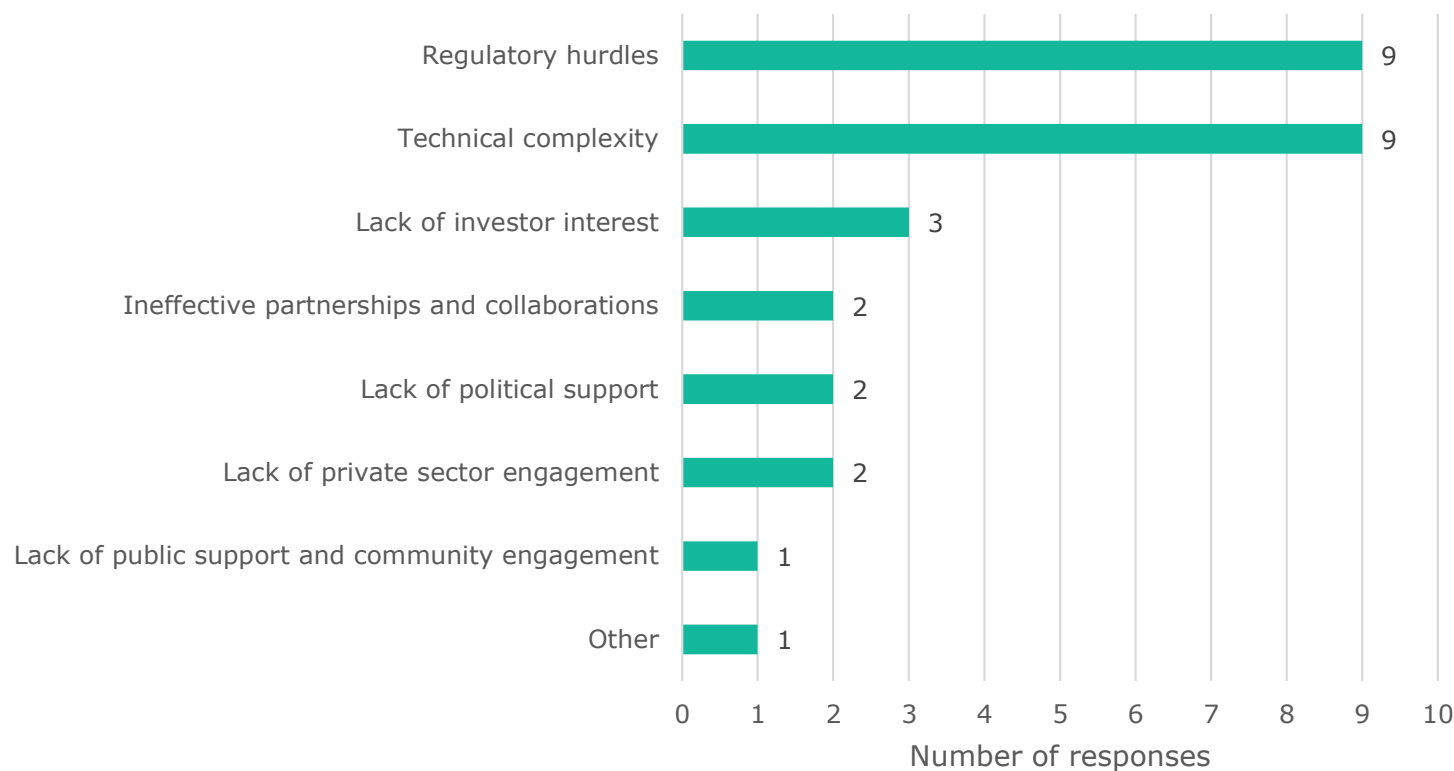
- **Strong partnerships:** Collaboration between public authorities, private enterprises, non-profit organisations, and community groups brings diverse expertise, resources, and perspectives to the table.
- **Solid institutional capacity:** Cities need to build capability to support IFSs, as these schemes require new resources and skills at the organisational level.
- **Supportive legal framework and regulatory environment and legal expertise:** The success of IFSs is often dependent on a supportive legal and regulatory environment. This includes laws and regulations that enable cities to experiment with and implement these schemes.
- **Sufficient financial resources:** Cities need access to funding to cover both the upfront costs of launching innovative schemes and the operational costs of maintaining them.
- **Strong political support:** Politicians and local representatives can send strong messages about the importance of finding new ways of financing and the importance of creating an environment that values and encourages IFSs.
- **Key skills and expertise:** Successful implementation of IFSs often demands high levels of technical skills and expertise, especially in areas like financial management, urban development, and IT.
- **Cross-departmental collaboration:** In large urban projects, collaboration across different municipal departments is crucial to ensuring that IFSs are well-integrated into broader urban strategies and policies.
- **Clear Ex-Ante Assessment:** Conducting a thorough ex-ante assessment is vital to evaluate the feasibility and potential impacts of the proposed IFS.



Barriers and Challenges Faced by Cities



Survey Results



Note: 19 respondents replied to the question: "What were the primary enablers that facilitated the successful implementation of the IFS(s) in your project?". Respondents could select multiple options.





Inherent and external barriers to IFS

Inherent barriers

- Technical capacity
- Compliance and monitoring
- Public procurement and participant selection challenges
- Resource constraints

External barriers

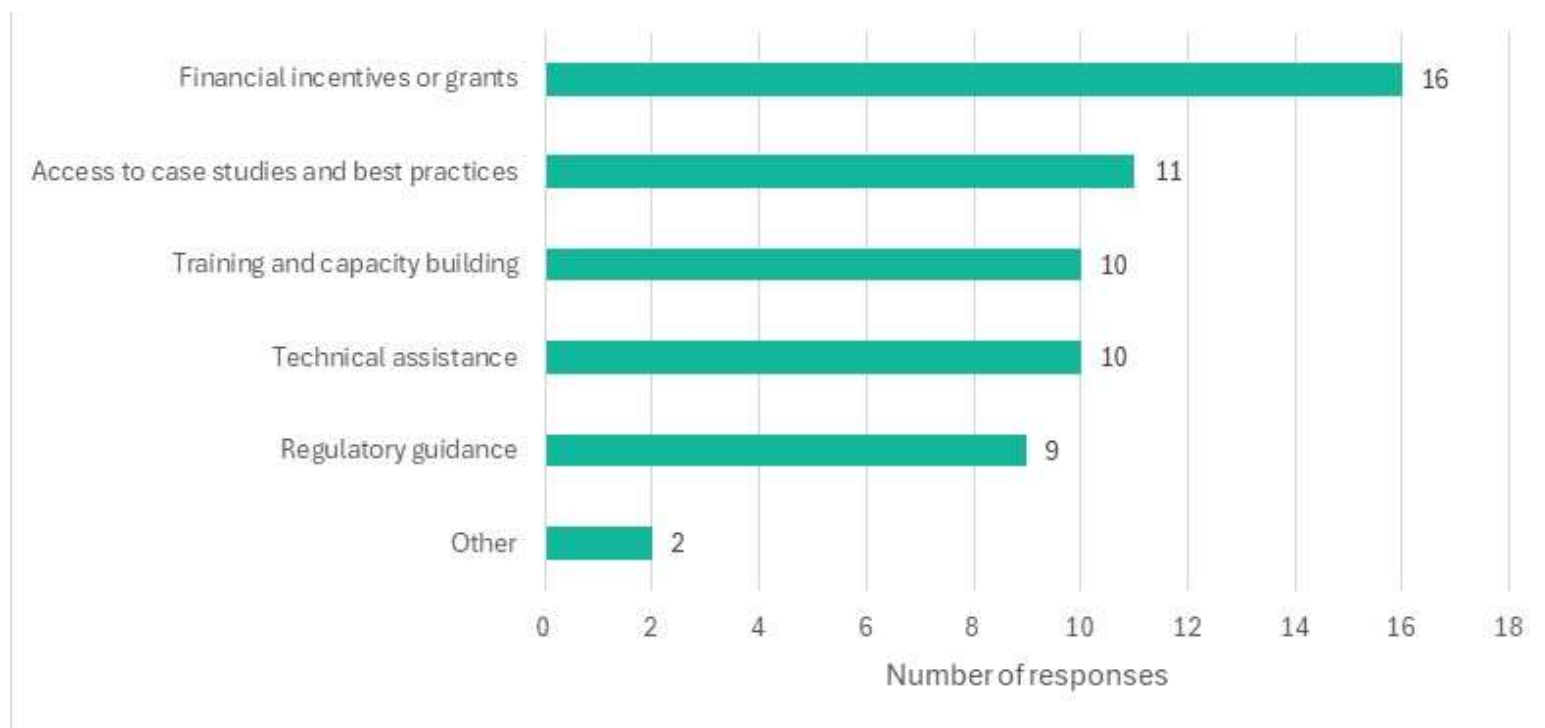
- Regulatory hurdles
- Investor confidence/interest
- Lack of political support
- Citizen engagement



Necessary conditions for implementing projects with IFs



Survey Results



Note: Note: 19 respondents replied to the question: "What are the necessary conditions for implementing future projects using IFs?". Respondents could select multiple options.





Recommendations – Urban Authorities

- Set up dedicated teams that are open to experimentation and possess expertise in various areas (e.g. legal, IT, communication, community engagement)
- Seek synergies, build consortia and leverage the resources and expertise of partners
- Leverage already available resources and infrastructure within the city
- Look for funding from various sources (e.g. municipal budgets, EU projects, commercial finance, EU financial instruments, pension funds for revenue generating IFs, social impact funds for non-revenue generating IFs)
- Look for existing platforms (e.g. Rikx) and materials (open source data) to use and build on
- Seek best practice examples and inspiration, look for opportunities to have exchanges with other cities that have already tried and tested a given IFs
- Align IFs with local strategies and laws to ensure political buy-in and support





Recommendations – Policymakers

- Address regulatory hurdles that stall the implementation of IFSs in cities (e.g. parking regulations for CLTs)
- Introduce regulations that would make the implementation of IFSs easier (e.g. regulation around the creation of virtual currency, micro-entrepreneurship policy in order to enable citizens to perform tasks in the city without facing tax issues)
- Provide funding for experimentation through grants, subsidies, or partnerships
- Develop national-level financial instruments that blend EU funding with commercial financing to enable municipalities to access larger pools of funds.
- Create platforms where cities with similar problems or ideas/solutions (IFSs) can come together and address these collectively
- Support standardisation (e.g. systematise tools/instruments to be deployed to other cities (off-the-shelf-models, like Rikx), consider a potential standardisation of digital coins (e.g. at regional level) as a way to simplify the implementation of such projects and IFSs)
- Offer technical assistance and capacity-building programmes, share best practices
- Fund exchanges between cities/projects

